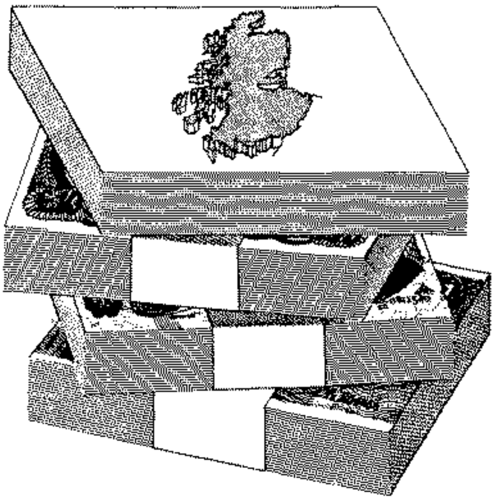
The Scottish Economy

Industrial Performance



The October Industrial Trends Survey of the CBI took place between Friday 25 September and Wednesday 14 October. During the period since the previous survey there had been little change in interest rates or real exchange rates. Respondents' outlook will not therefore have been influenced by the dramatic events of late October and early November. Over this period base interest rates have fallen to 9% and the sterling-dollar exchange rate has risen to around $1.77. Sterling's exchange rate against major European currencies has however been little affected.

The short-run impact of these events is likely to be confined to sectors of the Scottish economy with a heavy involvement in US markets. The adverse effects of the depreciation of net personal wealth induced by the downward 'adjustment' of world equity prices will have its most immediate effect on consumer spending. Though particular firms or small sectors of the economy may suffer badly from this development its overall effect on the Scottish economy is likely to be small. In the longer term firms may find it more difficult to finance investment, but the worry is that unless fiscal correction can be successfully managed on an international scale the world economy will slide into recession. Scotland could not expect to escape from such a general contraction in economic activity. Respondents to both CBI and SBS surveys would not have anticipated these possibilities when expressing their views about the economy in late September and in the first half of October. The following description of results should be interpreted accordingly.

BUSINESS SURVEYS

Between them, the **Scottish Chambers' Business Survey** (SCBS) and the CBI's Industrial Trends Survey provide a reasonable guide to recent and current trends in the Scottish economy. Both Surveys are carried out on a quarterly basis with the results being derived from the responses of Chambers of Commerce and CBI members respectively. In addition to eliciting information from different sources the Surveys also differ to a degree in the questions while each asks and the analysis of the replies. For example, the CBI provides information on trends by size of firm which the SCBS presents a geographical breakdown. However, the key difference is in the industrial coverage of the Surveys. Whereas the SCBS covers firms in construction, wholesaling, retailing, financial institutions and manufacturing, the CBI Survey covers only the last of these.

CBI SURVEY

The CBI Survey registers a balance of 19% of respondents who are more optimistic about their general business situation. Optimism is most pronounced in the small business sector. This increased optimism is backed by a strong growth in the volume of new orders. There is however some evidence in the returns of a build-up in inflationary pressure. Unit costs increased significantly in the four months to October but, as yet, these have not been passed on to prices. Past experience has shown, however, that so long as the growth of productivity can be maintained, the trend rate of growth of prices may be kept below that of costs.

Though the general level of orders and output is buoyant, there are sharp sectoral variations in experience across sectors. The chemicals sector, in particular, continues to perform poorly, but the metal manufacturing sector which was initially slow to emerge from the recession, now has a balance of +64% (sixty-four percent) of respondents who report an increase in output. This even surpasses the July figure, which showed a balance of +42% of respondents reporting increased output.

The poor output performance of chemicals is unlikely to abate much in the coming quarter. The volume of new orders in the sector has declined sharply. A balance of -39% of respondents report a fall. However some sectors which have recently suffered setbacks in the volume of new orders received have had a revival of fortunes. In particular the textiles sector, which in the July survey reported a decline in orders, now has a balance of +32% of respondents reporting an increase. Although seasonal influences may explain part of this reversal, export figures do indicate the possibility of a more enduring expansion of activity. In the light of more recent events, it is perhaps of concern that the US market is of some importance for high quality textile and clothing manufacturers.

Scotland's main export markets now lie predominantly in Europe. The general optimism expressed about export prospects in the October Survey is, therefore, unlikely to be undermined by the recent appreciation of the pound against the dollar. A balance of 13% of respondents report an increase in the volume of new export orders in the three months to October and a balance of +26% expect a further increase in the coming quarter. Although the metal manufacturing sector is notable because it expects a contraction in its export orders, its domestic order book remains strong. Of the factors most likely to limit the growth of exports, export prices are cited as the most significant influence. Despite this worry, export orders are still expected to rise slightly in the coming months with the textiles sector expecting the most pronounced increase.

Concerns about the 'overheating' of the economy are partially supported by the acceleration of unit costs reported in the CBI Survey. A balance of +30% of respondents register an increase in unit costs, which is the highest balance for two years. Unit costs are accelerating most rapidly for large firms and only the metal manufacture sector is exempt from the increase. There is, however, better news on the horizon. The increases in average unit costs are expected to moderate in the next four months, and the rate of increase in average prices is stable. Nevertheless, it must still be expected that present increases in unit costs will eventually percolate through to prices.

Despite recent falls in total unemployment, the CBI Survey indicates that manufacturing employment has continued to decline in the last four months and respondents suggest that the decline is likely to continue in the next four months. Previously, small manufacturing firms have performed best in terms of the creation of jobs but the latest figures show that employment losses are now likely to be most severe among small firms. Only medium sized firms expect to increase the numbers they employ.

Now that there has been a consolidation in the growth of orders and sales, manufacturing investment is responding in a more consistent manner. A balance of +10% of respondents expect to authorise more expenditure on plant and machinery in the next twelve months. This positive balance underlines the bullish investment intentions reported in the July survey. To a large extent, however, investment is still motivated by the desire to improve efficiency and this may explain why capital expenditure on buildings remains sluggish.

Recent reductions in interest rates, which lower the cost of financing capital expenditure, may provide a short-run stimulus to investment. In the longer-run, however, the depreciation of equity values may make the financing of investment expenditures more difficult, especially for those firms which are already highly geared.

In summary, respondents to the CBI Survey remain optimistic about their prospective business conditions. These views, however, were canvassed before the fall in stock market values, reduction in interest rates and depreciation of the US dollar. It remains to be seen what, if any influence, this will have on business expectations. The major concern must be the possibility that the stock market slide will precipitate a world recession.

THE SCOTTISH CHAMBERS' BUSINESS SURVEY

The timing of the **Scottish Chambers' Business Survey** (SCBS) and the CBI Survey are almost co-incident. The qualifications we have expressed in the light of recent events about the CBI Survey therefore also apply to the SCBS.

Like the CBI Survey the SCBS survey reports a broadly based optimism about the prospects for the Scottish economy. Indeed, respondents are more optimistic than at any point since the **Survey's** inception. The SCBS even suggests the possibility of a growth in employment in the coming months. Notably, however, the prospective growth is confined to service activites, and is expected to be in part-time jobs. As in the CBI survey, there is a negative balance of respondents in manufacturing who intend to increase the numbers they employ in the coming quarter. Furthermore, expectations of employment growth in manufacturing which were expressed in the summer have failed to materialise.

Now that the contractionary effects of the oil price fall in 1986 have largely receded, business optimism in the Aberdeen area has rebounded. In the construction sector a balance of +87% of respondents are more optimistic; in whosesale distribution +45% of respondents are more optimistic and in retail distribution +85% of respondents are more optimistic. In the oil and oil related industry no respondents claimed to be less optimistic about their general business situation. Only in the manufacturing sector do respondents claim to be pessimistic. Even here capacity utilisation is relatively high and the expected trend in orders and sales is distinctly upwards.

Oil has a less pronounced impact on the remainder of the Scottish economy. Nevertheless, optimism is still evident both across the sectors and regions of Scotland. The only blemish on this buoyant outlook is in the retail distribution sector of Edinburgh. In this sector a balance of -31% of respondents claim to be less optimistic about their general business situation than three months ago. Although respondents are asked to exclude seasonal influences in their replies, the suspicion is that the pessimism may be associated with the close of the major tourist period.

There is a large measure of agreement between the SCBS and CBI surveys in the responses of firms in the manufacturing sector. It has already been observed that despite a high general level of business optimism, employment prospects remain depressed in manufacturing. This is reflected in the answers of respondents to both surveys. Similarly, both sets of respondents have again revised upward their investment intentions with respect to plant and machinery but, in comparison, expect to authorise little capital expenditure on buildings. In terms of sectoral detail, the SCBS reports an increase in the balance of optimism in: metal goods, mechanical engineering, electrical and electronic engineering, tectiles and paper, printing and publishing. Diminished optimism is registered only by respondents in the food and other engineering sectors. The only source of disagreement in the surveys here is in the food sector. In the CBI survey, respondents in food claim to be more optimistic. The source of this difference is, however, impossible to detect and previous experience suggests that the conflicting signals are unlikely to endure.

Unlike the CBI survey, the SCBS covers the non-manufacturing sectors: wholesale distribution, retail distribution, financial services and construction. Respondents in construction continue to express increased confidence, and indeed optimism in the October survey has reached its highest level since the SCBS was initiated. The source of this optimism can be detected in the expectation of increased orders from both the public and private sectors. Given the modest level of capital expenditure on buildings planned in manufacturing, it might be inferred that the source of private sector demand for construction emanates in the service and housing sectors. To meet the expected increase in orders, construction firms plan to increase the number of people they employ in the next quarter.

Corporate and personal sector advances by Scottish financial institutions continue on their upward trend. The demand for finance for working capital is the most pronounced source of growth for capital but credit for investment in buildings and plant and machinery remains strong. All sectors of the economy are participating in the increased demand for credit.

The wholesale and retail distribution sectors have for some time now been the most vigorous sectors of the Scottish economy. The SCBS provides little indication that this position is likely to change in the short run. In retail distribution +42% of respondents are more optimistic about their general business situation and +58% of retailers expect sales to rise in the next three months. The growth in employment expected in the retail sector is likely to be concentrated on part-rather than full-time jobs. In wholesaling the picture is little different. Firms in all areas expect a growth in sales, but as in retail distribution, part of this anticipated growth may be attributable to seasonal (Christmas) factors.

In summary, therefore, the SCBS October survey provides additional evidence that Scotland is emerging from the prolonged recession. Output and orders are responding more vigorously than employment but there is evidence in the replies of firms in service and construction activities that jobs are being created and this is reflected in the downward trend in unemployment. With oil prices now firmer than before, the geographical spread of the expansion in activity is now more broadly based than previously with Aberdeen enjoying a noticeable revival in its economic fortunes.

Primary

AGRICULTURE

Provisional figures contained in the June 1987 Census of Agriculture show that the total number of sheep in Scotland rose by 300,000 to just over 8.8 million, the highest figure ever recorded. The number of cattle, however, declined to the lowest level since 1965, with a fall of 4% to 2,062,000.

With a fall of only 1,000 to 418,000, however, the number of beef cows showed the smallest year-on-year fall since numbers peaked in 1974. The dairy herd has also declined, the number of dairy cows being cut by 7,000 to 263,000 and the numbers of dairy heifers down by 7%. Total pig numbers were 8% lower than a year ago but the total number of poultry had risen by 17% to 13.4 million.

The acreage of wheat increased by 15% to 102,000 hectares, four times the area recorded in 1980. Following a check in 1986, the downward trend in the barley area continued, with a fall of 7% to 390,000 hectares, 65,000 below the 1982 peak. In the year to June, the number of workers employed on Scottish farms fell by 3%.

Although the European Commission has imposed quotas for the last three years, milk production throughout Europe in the last three years is still expanding. In Britain, almost 5,000 dairy farmers have left the industry but production is still running at more than 100 million litres above quota. Although the size of the dairy herd is being reduced, farmers are boosting productivity to the extent that milk yields are expected to increase by 25% to 50% by the mid-1990s. The operation of the quota system in Scotland is reducing the availability of the raw materials for cheese-making. The shortage of milk available to cheese-makers has been cited by the NFUS as evidence of a need for changes to be made in the way in which the quota system is administered. They have made representations along these lines to the European Commission.

Mr Richard Lyng, US Agriculture Secretary, has called for a reform of world agriculture by the elimination of production-related subsidies within ten years. However, the European Communities Farm Commissioner, Mr Frans Andriessen, said that the EEC could never agree to a total elimination of subsidies on farm exports. The US government believes that liberalisation of international trade in farm goods makes for a far greater volume of business, with developing countries stepping up their activity both as importers and exporters.

FISHING

The latest figures published by the Department of Agriculture and Fisheries for Scotland show that the value of fish landings in Scotland by UK vessels in the first seven months of 1987 was £148 million. This represents a 22% increase over the corresponding period for 1986 and is the combination of a fall in volume of around 4%, to 242,000 tonnes, and average price increases of 27% to £612 per tonne. There is, however, considerable variation between the different categories of species as can be seen in Table 1.

Demersal species remain dominant, accounting for 68% of total volume and 75% of total values. Whilst volumes dropped marginally, in comparison to the figures for 1986, significant price increases acted to increase total values by about one fifth. On the other hand, there was a marked fall in the volume of pelagic species landed and only minor price increases meant that total values also fell significantly. This category now accounts for only 4.3% of total value whilst contributing 24% to total volume. Shellfish species continue to enjoy healthy growth and now account for 20% of total value and around 8% of volume. Despite the growth in volume, prices also increased substantially which is indicative of the healthy state of the market for these products.

Table 1 Fish landings by UK vessels at Scottish ports, January-July 1987

	Weight, tonnes	Value £m	Average price per tonne £
Demersal	163,277(- 2.5)*	112,073(+21.6)	686(+24.7)
Pelagic	58,204(-12.9)	6,317(-10.9)	109(+ 2.3)
Shellfish	20,293(+22.0)	29,488(+33.8)	1,453(+ 9.3)
Total	**241,774(- 3.6)**	**147,878(+21.9)**	**612(+26.5)**

*Figure in brackets represent the percentage change over the corresponding period of 1986

Source: Department of Agriculture and Fisheries for Scotland

Table 2 Landings by UK vessels at Scottish ports of selected species, January-July 1987

	Weight, tonnes	Value £m	Average price per tonne £
Cod	35,934(+31.9)*	31,206(+27.7)	868 (- 3.2)
Haddock	54,703 (-14.6)	41,327 (+ 5.5)	755 (+30.2)
Whiting	21,313 (+42.4)	11,571 (+61.3)	543 (+13.3)
Herring	17,978 (-60.8)	2,311 (-54.9)	129 (+15.6)
Mackerel	36,759 (+118.5)	3,871 (+110.8)	105 (- 3.8)
Norway lobsters	8,986 (+ 2.8)	18,044 (+21.5)	2,008 (+18.2)
Scallops	2,906 (+ 8.4)	4,573 (+33.8)	1,574 (+23.4)

*Figures in brackets represent the percentage change over the corresponding period of 1986.

Source: Department of Agriculture and Fisheries for Scotland

In Table 2, some details of the most important individual species in each category are provided and these figures show even more clearly the starkly contrasting fortunes that are masked by the aggregate figures. Significant increases in cod and whiting volumes were the major factors contributing to large increases in landing values. Haddock, on the other hand, relied on proportionately larger increases in prices to allow the fall in volumes to be accompanied by increased value. The two major pelagic species, herring and mackerel, experienced extremely divergent trends. For the fomer large drops in volume and proportionately smaller price increases combined to reduce values by over half. Conversely,mackerel landings are more than double the amount recorded a year previously, and little price change meant that total value also doubled. Norway lobsters and scallops enjoyed increasing volumes and prices, and this merely serves to illustrate the predominant trend amongst shellfish species.

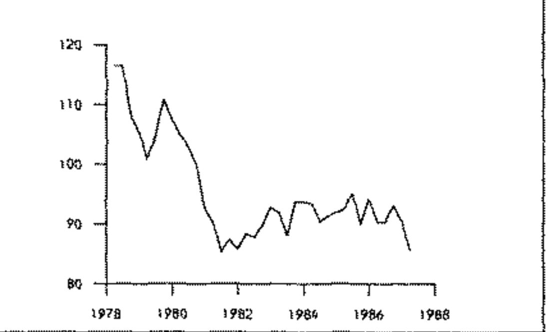
The perceived clash of interests between highland fish farmers and those who rely on income from the tourist industry has again been in the news. Just recently the London based Scottish Tourist Trust approached the Scottish Tourist Board and the HIDB asking them to commission a study of the effect that fish farming is having on tourism in the area. This follows the row over the decision by Highland Regional Council, in September, to allow the first fish farm project on Loch Ness to go ahead. There was vociferous local opposition to the scheme on the grounds that it could jeopardise the whole future of the area a tourist attaction. Also in September, there was an outcry about plans by Marine Harvest to build an onshore base at Glenfinnan, a site of unique historical interest as it was here that Bonnie Prince Charlie raised his standard in 1745. These two cases, and the many more that have been reported recently, illustrate the need for a full evaluation of the economic and environmental impact of fish farming. Until such time as this is carried out, there will continue to be objections to the future developments in an industry which undoubtedly offers great potential for bringing jobs and prosperity to the more remote areas of Scotland.

This potential is well illustrated by the announcement in October that Marine Harvest is investing £9m in a programme aimed at raising its output from 4,000 tonnes in 1987 to over 10,000 tonnes by 1990. The firm has commissioned a salmon gutting and packing plant at Fort William and has spent about £1.5m equipping it. This will contribute in an expected increase in workers employed at the plant from the current level of 30 to 100 by 1989.

Construction

The wide array of statistics relating to the construction industry all point to the continuing relatively poor performance of this sector in Scotland compared with the rest of the UK. The Government's index of construction for Scotland stood at 85.5 for the first quarter of 1987, down 4.8 points on the corresponding 1986 figure (1980=100). This is the lowest single quarter's figure recorded for several years. By contrast the index for the UK stood at 110.4 in the first quarter, a rise of 11.4 points on the 1986 quarter. In contrast to the position in Scotland, this represents the highest quarterly figure recorded since the 1970s.

Construction output
(1980 = 100)



The Department of the Environment's figures for new orders received by contractors show that the total for Scotland in the second quarter rose by 23% on the corresponding 1986 level to £407.71m. Most of this rise took place within the private sector, up nearly £60m (29%) on last year, despite the fact that new private sector housing orders fell 18%. This fall in private housing orders was, however, more than offset by the growth in contracts from nearly all industrial and commercial sectors, especially offices. New public sector housing contracts were down slightly in the second quarter to £29.12m, but once again substantially increased orders in other areas of the public sector were sufficient to more than offset this. Interestingly, the educational sector showed strong growth in new construction orders for the second successive quarter; at £11.6m this sector's new orders stood at more than three times the level of the second quarter of 1986.

Looking specifically at housing, the National House Building Council's figures for new housing starts indicate that the drop in new housing starts in Scotland has continued into the third quarter. Between July and September only 2,200 new private dwelling applications were registered with the NHBC, the joint lowest quarterly total since 1982, and over 40% lower than the third quarter of 1986. Interestingly, the NHBC figures also give the first hint that the house-building boom in other parts of Britain may be faltering slightly. Total new start applications for Great Britain in the first nine months of 1987 stood at 148,300, fractionally down on the 1986 figure. However, there is no indication of any slackening in the rate of increase of house prices overall. Recent figures released by Nationwide Anglia Building Society estimate that in the 12 months to September, house prices in the UK rose by an average of 19%. A comparison of different regions is, however, very revealing. Prices in london and the South East rose by 25-29% in twelve months, while at the other end of the spectrum house prices in Scotland showed no change in the same period, and those in Northern Ireland fell by 1%.

Two recent forecasts on the UK construction industry, one by the Royal Bank's merchant banking arm, Charterhouse, and the other by the National Council of Building Materials Producers, both forecast output growth of 6-7% this year and continued though slower growth next year. Once again, however, Scotland appears to be the only black spot on these optimistic predictions. The Builders' Merchants Federation have released figures confirming that sales of building materials (which provide a good barometer for the fortunes of the construction sector) rose in the UK by 8% in real terms in the 12 months to July; but in Scotland in the same period the value of sales fell by 3.2% in real terms. The importance of these indicators is not only showing that the construction sector in Scotland is still in the doldrums, but that Scotland has so far failed to reap major benefits from the sustained boom in the South. As a result, the gap between the sector's performance in Scotland and England continues to widen, a point discussed at some length in the August **Commentary.**

Despite these current problems, the results of the latest **Scottish Business Survey** are fairly optimistic. During the three months from July to September responding firms found public sector orders very sluggish, while the private sector did provide some growth. The expected pattern for orders over the final quarter is decidedly bright. While over 60% of respondents expected little change in new orders over the next three months, nearly all of the remainder anticipate an increase with very few expecting a decline; as before, the private sector is expected to be the main source of growth. So far there is no evidence of this optimism filtering through to employment. A balance of 12% of respondents shed labour during the last quarter, with non-manual employment doing particularly badly. The expected trend is optimistic, however, with nearly half of all responding firms anticipating an increase in employment before the end of the year, and only 15% expecting a reduction.

The Government's proposals for the merger of the Scottish Special Housing Association and the Housing Corporation in Scotland into Scottish Homes has been broadly welcomed by both parties - but with reservations. While recognising the logic of a merger between two complementary organisations, the SSHA has voiced several areas of concern. One of these is the relatively short time period allowed for consultation. The SSHA is concerned at the merger being rushed, and would prefer the publication of a White Paper on this proposed radical revision of housing management in Scotland to allow more time for discussion. Other suggestions from SSHA are, first, that its existing loans be written off at the time of merger in order to prevent the new management being immediately saddled with the debts of the old, and second, that a rapid decision be made to allow the Association's building division to tender more widely for work among local authorities and housing associations if the division is not to remain under the aegis of Scottish Homes. It now seems certain that the merger will go ahead. It is less clear whether some of the basic questions about the proposed new organisation will be answered before it comes into being, most crucially whether Scottish Homes will really be able to tackle the central issue of the adequate provision of housing in Scotland.

Energy

OIL AND GAS

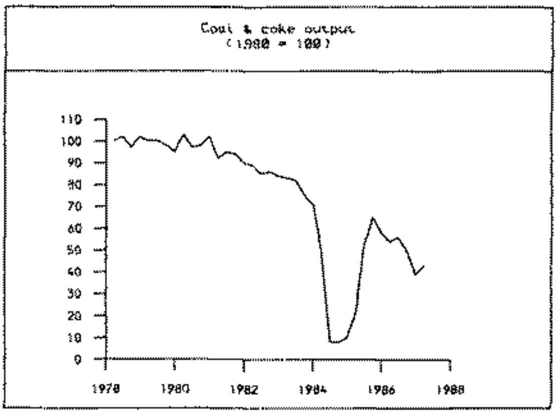
Provisional figures from the Department of Energy indicate that UK crude oil production in August this year totalled 9.8 million tonnes, down 0.6 million tonnes compared with August 1986. Indigenous natural gas supply in August was 624 million therms, respresenting 73.5% of total natural gas supplied to the UK. On balance, the UK remains a net exporter of crude oil and a net importer of natural gas.

In spite of indications that OPEC output has been exceeding the organisation's self-imposed quota of 16.6 mbpd, Brent crude has continued to trade in the \$18-\$20pb range in recent months. As a result of this, there has been a further recovery in exploration activity in the North Sea, with 48 rigs operational in UK waters in October compared with 30 in the same month last year. Encouragingly, indications are that exploration is proving successful with an estimated 650 million barrels of oil discovered already this year, more than in any equivalent period since 1975. As the North Sea is now a fairly mature oil province, it is to be expected that most incremental discoveries of hydrocarbon deposits will be relatively small; however, two recent finds - Chevron's Alba field and Kerr-McGee's in block 9/18 - are large by any standards, with the latter having possible reserves in the range of 350-700mb.

The growth, and success, of offshore exploration activity has caused onshore supplies firms to begin to feel more confident about their own future prospects. This is indicated strongly in the October results of the Scottish Chambers' Business Survey, in which 59% of Aberdeen-based offshore supply firms reported that they felt more optimistic than in July and no respondent felt less optimistic. It will, however, be some time before development activity, which is the phase in which major orders for platforms and fabrications are placed, begins to pick-up significantly. Thus, platform yards still face short-term problems in finding sufficient work to maintain continuity of employment.

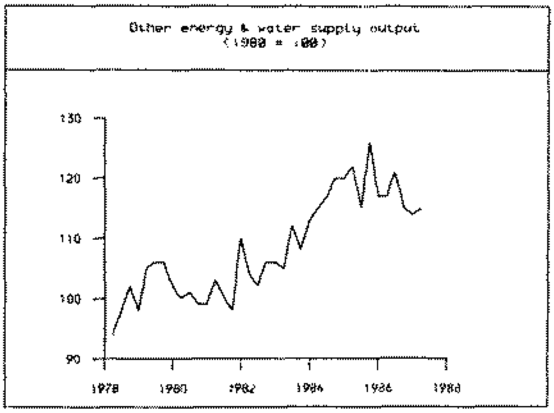
In late July, Total announced a £170million development of its gas terminal at St Fergus. To be completed in two phases, the modified processing facilities are intended to handle gas from the North Alwyn and Bruce fields.

COAL AND OTHER ENERGY



Following a 22% fall in the fourth quarter of 1986, provisional figures indicate a rise in the Index of Production of the Scottish coal and coke industries of around 10% (4 points) in the first three months of this year, leaving the Index at 43 (1980=100). Compared with a year earlier, the Index has fallen by some 20%.

Since late summer the industry has been affected by an overtime ban introduced by the National Union of Mineworkers (NUM). Despite a desire on the part of some regions to extend the ban to all forms of work, it is, at the moment, confined to coal cutting only with normal maintenance work being carried out. The source of the current dispute is British Coal's (BC) determination to introduce a new disciplinary code. As ever in this industry the precise nature of the disagreement is obscured by the claims and obfuscations of the various parties. Central to the conflict is the new disciplinary code which BC introduced without the consent of the NUM although with the support of the Union of Democratic Mineworkers. The new code differs in several particulars from the previous one, the most contentious points being the alteration to the traditional arbitration system within the industry and management's assumption of the right to dismiss employees for conduct which deliberately damages the company's operations. On the first of these points BC wants to abandon the pit umpire system which has been used to resolve disputes since the industry was nationalised. This procedure involves an individual - the umpire - who is typically a retired union or colliery official, adjudicating on points of disagreement, mainly dismissals. In many respects this is a form of pendulum and binding arbitration. However, BC now wishes to refer all such disputes to Industrial Tribunals (IT). Remembering the impunity with which BC has disregarded many of the re-instatement and re-engagement recommendations made by IT's with respect to miners sacked during the 1984-85 strike, the NUM is reluctant to accept this change. The second point is of even greater concern to the union since deliberately damaging the company's operations is an offence which may include participating in or arguing for industrial action, trade union activities and acts performed outwith working hours and away from the workplace.



Following a secret ballot of the membership, 77.5% voted in favour of industrial action in opposition to the code and an overtime ban has been introduced. In Scotland 86% voted in favour of action. The ban has had a limited impact so far with BC claiming that the output equivalent of 3% of weekly sales is being lost. However, BC is fearful that continued action may cause customers to believe that supplies will be disrupted and that, as a result, there may be substitution to imported coal. Until the overtime ban is ended BC is withholding this year's pay rise from NUM members.

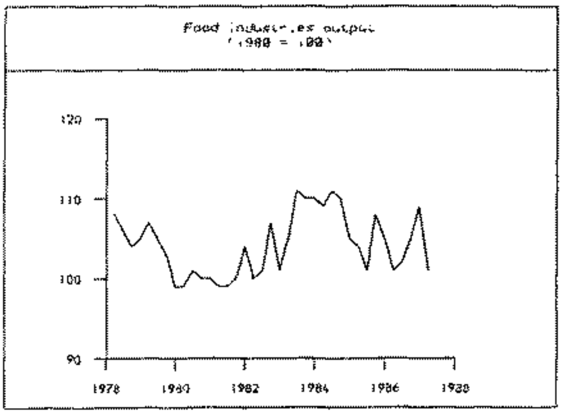
In Scotland planning permission has been granted for two open-cast sites. At Blindwells near Tranent in East Lothian the existing site will be extended to allow the recovery of 3.5m tonnes for use at the Cockenzie power station and for export. The extension will allow the retention of 160 jobs over a ten year period. At Damside near Allanton in Lanarkshire permission has been given for development of a site which is expected to yield 2.25m tonnes over ten years.

In advance of the privatisation of the electricity industry advisers have been appointed by the interested parties. The Secretary of State's team includes McGrigor Donald (legal matters), Coopers and Lybrand (accountancy and regulatory matters), Merc and McLellan (technical and engineering issues) and Barclays de Zoete Wedd and British Linen Bank. Initially Noble Grossart and Samuel Montagu had been appointed to advise both SSEB and NOSHEB. However, NOSHEB has chosen Charterhouse, the Royal Bank subsidiary, to act on its behalf. This is a clear indication that NOSHEB's preferred option is that it be privatised separately from the South Board.

Manufacturing

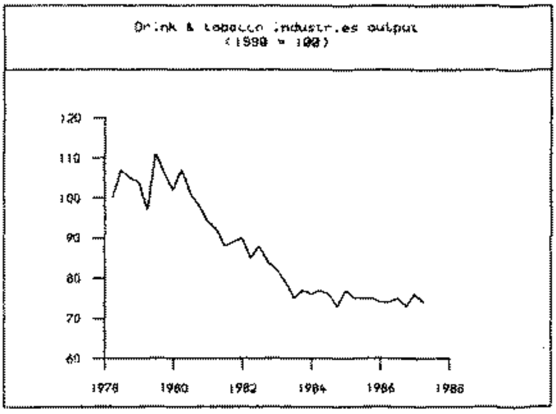
FOOD, DRINK AND TOBACCO

The index of production shows no evidence of a reverse in the steady decline exhibited over the past three years in the food sector, and over the last seven years in drink and tobacco. At 101 the index of production for food in the first quarter of 1987 was unchanged from the same period last year. Unchanged too was the index for drink and tobacco, standing at 74. In the food industry the Scottish index thus continues to lag slightly below the UK index, which stood at 106 for the first quarter. For drink and tobacco, however, the UK index is now fully 24 points ahead of the Scottish index at 98 (1980=100).



At first sight the optimistic tone of the last three **Scottish Business Surveys** appears to be faltering, with a slight balance of respondents in the October Survey experiencing a decline in sales over the previous three months. However, closer analysis reveals that while Scottish sales and new orders continue to be in decline, sales to the rest of the UK and, especially export sales continue to show strong growth. This general pattern is expected to continue into the final quarter, with a balance of 21% of responding firms anticipating increased overall sales. As anticipated in the last Survey, more firms experienced an increase in employment than experienced a fall in the last three months. There are a couple of worrying signs for the future, however; a balance of 5% of respondents expect to reduce their labour force (excluding seasonal factors) before the end of the year, and 34% of respondents claim to be less optimistic about the general business climate than they were three months ago, compared with 19% who claim to be more optimistic.

At the third attempt Scottish & Newcastle Breweries have gained control of Matthew Brown, Lancashire-based brewers of Theakston's ales. S&N twice bid for Matthew Brown in 1985; the first bid was put in abeyance by a Monopolies & Mergers Commission (MMC) enquiry, and when the MMC found the proposed takeover not to be against the public interest S&N narrowly failed to gain control at the second attempt following stout (or should it be bitter?) defence from the Brown board. (In fact, during the second bid S&N did achieve the necessary number of acceptances for a successful bid, but the Takeover Panel ruled that the threshold of 50% acceptances had been crossed after the time limit for acceptances had expired.)



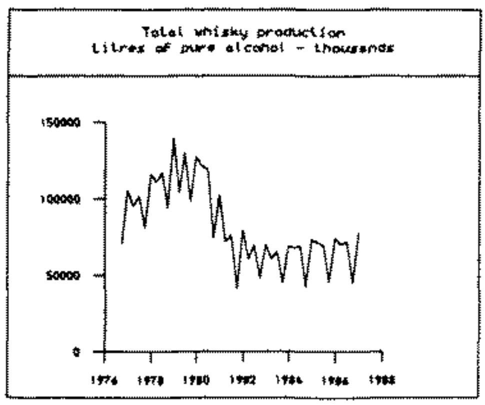
Since December 1985 S&N have continued to hold nearly 30% of Brown's shares, waiting for the appropriate time to launch a third bid. Timing did indeed prove crucial in the success of this final attempt, but not in the way that S&N could have anticipated. The bid was based on a three for one share transfer, but with a cash alternative of 750p for each Brown share. The rapid fall in the stock market which occurred shortly after the bid was announced led to Matthew Brown's share price falling from 780p to 663p, making the S&N cash alternative irresistable to many shareholders (though, interestingly, not to a couple of important institutional investors). At the time of writing, S&N have obtained 54% acceptances, enough to declare the £186m bid unconditional. However, the saga is not yet over, because as yet no recommendation has been forthcoming from the Brown directors to the remaining shareholders. The reason for this was that the Matthew Brown board appeared still to harbour hopes that the takeover would be referred retrospectively to the MMC. They argued that things have changed since the last MMC investigation because in the interim period S&N purchased Home Brewery of Nottingham, thus adding to the concentration of ownership by the large brewers of small regional concerns. Not surprisingly, however, the Office of Fair Trading did not support this view, and the bid has not been referred. Home Brewery was a relatively small purchase and did little to advance S&N's ambitions to become a truly national brewer rather than the large regional one which it is now. S&N's 1750 tied houses are still only around one-third of the number owned by Allied Lyons or Bass, and the Edinburgh-based concern rightly sees Brown's 520 pubs as a logical addition in a market adjacent to its heartland of Scotland and North East England.

Ironically, just as S&N seek to expand their tied house base, attempts are being made to point out the problems associated with the concentration of ownership of British pubs in the hands of the large brewers. The Consumers' Association has been giving evidence to the MMC during the Commission's enquiry into the supply of beer in the UK, and argues that the relative lack of competition between the national brewers and the fact that more than three-quarters of all pubs in Britain are tied houses leads to less choice and higher prices for the consumer. One of the more interesting proposals, supported both by the CA and by the Campaign for Real Ale, is that brewers should be allowed to have tied houses totalling not more than one-third of the total number of pubs within any licensing district. If such a radical move was adopted it would have a significant effect not only on the national brewers but also on the small regional concerns (like Matthew Brown), which, precisely because they are local firms, not infrequently have a high proportion of tied houses within individual licensing areas. While it is inconceivable that the MMC would accept proposals which would result in massive pub sell-offs throughout the country, these proposals do draw attention to the fact that when the impact of concentration of ownership on prices and consumer choice is being considered it may be necessary to define "the market" quite narrowly in geographical terms.

As the last **Commentary** went to press details emerged of the latest acquisition by one of Scotland's most successful food companies. For several years John J Lees of Coatbridge have been diversifying out of their primary products of macaroon bars and snowballs, and the recent purchase for £700,000 of Greenock confectionary manufacturers Fullers represents a further step in that line of development. In addition to Fullers, Lees already owns Vitmix of Dundee, who manufacture frozen gateaux, and has a 56% stake in meringue manufacturers Heather Cameron. This firm is now in the process of moving from several disparate locations to a centralised unit in Coatbridge.

WHISKY

The latest whisky production and export figures make optimistic reading. Production in the second quarter was 80.75m litres of pure alcohol (LPA), a full 11.9% higher than the second quarter of 1986. This is the fourth successive rise in second quarter output, and not since 1980 has so much whisky been produced in a single quarter. Encouraging also is the news of increased whisky exports. Total exports for the nine months to September 1987 stood at 167.12m LPA, up 2.5% on the corresponding period in 1986. Bottled Scotch, the most important segment of the export market, rose 6% to 116.66m LPA.



To no one's real surprise Guinness has at last admitted that its group headquarters will not be moving to Edinburgh. Sir Normal Macfarlane had been hinting that this would be the case virtually since the day of his appointment as Guinness Chairman, and the final announcement produced only half-hearted displays of ritual outrage from predictable quarters. Instead of the group headquarters, Edinburgh will play host to the central office of United Distillers, effectively the whisky arm of the enlarged group. It can be argued that clear control from Edinburgh over something like the old DCL is something which was noticeably lacking before the acquisition by Guinness, and that we ought to be thankful for that at least. While there is an element of truth in this view, the fact remains that the major prize has eluded Scotland's grasp despite he best efforts of several senior figures in the Scottish establishment, including the Scottish Secretary.

Already changes are taking place within United Distillers. Two million pounds is to be spent on a new export and administration office based in the offices of White Horse Distillers in Glasgow. Although the new office will employ 200, a net reduction in jobs is expected as the many overlapping functions of DCL and Bell's are rationalised. Existing export offices in Perth, Edinburgh and Kilmarnock are now under threat, with 24 Perth jobs already deemed to be surplus to requirements.

While the furore surrounding the Guinness-Distillers takeover rages on, Guinness has been busy on the overseas acquisition trail. Schenley Industries, one of Guinness' major US distributors, has been purchased for £291m, a move which helps further three objectives. The takeover fits in well with chief executive Anthony Tennant's avowed twin aims of concentrating on the group's core businesses of beer and spirits, and exercising more control over foreign distributors. Even better, however, is that the purchase of Schenley resolves the problem of the assignment of the legal title to the Dewar's brand to the American company during the bid for Distillers. This was done by the previous Guinness management, who did so apparently for no consideration. Of course, buying back the brand which you gave away for nothing last year may not seem like a very good deal, but since some analysts reckoned that Guinness might have to pay as much as £500m for Schenley, it may be that Mr Tennant has pulled off something of a coup. A further step towards Guinness' aim of concentrating on core activities was achieved at the same time as the Schenley deal with the proposed sell-off of the wine producing and marketing elements of Somerset Group, another of the Guinness US distributors.

The purchase by an English brewery company of an equally English gin distiller may have little obvious connection with the Scotch whisky industry, but appearances can be deceptive. The importance to Scotland of Whitbread's proposed £175m purchase of James Burrough, producers of Beefeater Gin, lies in the fact that Whitbread already owns Long John International. The whisky company will now be merged with Burrough, a move which may lead to the end of the Long John International company name. Like nearly all whisky distillers, Long John has found worldwide sales at best stagnant recently (with the exception of Europe), and Whitbread clearly feels that the addition of white spirits such as the brand leader Beefeater and the vodka brand Borzoi can do much to help the group's export position. From Burrough's point of view the ending of over 150 years as a family-controlled firm was felt to be necessary if the firm's brands were to continue to be successful in the increasingly competitive international drinks market.

North Tayside MP, Bill Walker, has raised a few hackles with his Commons bill which seeks a more rigid definition of Scotch whisky. Should his bill succeed, whisky would require to be a minimum of 40% proof in order to qualify as Scotch, in addition to the existing requirement that it be distilled in Scotland. This proposal has upset producers of low-strength whisky who deeply resent the fact that it would prevent their product being described as Scotch, and would thus brand it as being in some way inferior. The low-strength producers point out that their product contains both malt and grain Scotch whisky, and that the only difference from the full-strength version is the extra water contained in each bottle. Nor do they take kindly to the idea that producers are somehow fooling the public into buying what they believe to be full strength whisky at bargain prices. Sales of low-strength whisky have been rising rapidly for some time, claim the producers, and people do not keep buying a product if they believe they are being conned.

The implicit assumption underlying Mr Walker's bill is that low-strength whisky harms both the sales and the image of the 'real' product, while the low-strength producers argue that the products are identifiably different and are complementary. The low strength issue is one which has been present for some time, and until some clear evidence is produced one way or the other, the issue is likely to remain clouded in suspicion and mutual recrimination.

Previous **Commentaries** have discussed the long-running dispute between European wines and spirits producers and Japan, whose tax and duty regime so discriminates against imported wines and spirits that the European Commission was moved to lodge a complaint with GATT (General Agreement on Tariffs and Trade). The Scotch Whisky Association has played a significant role in this process. The GATT disputes panel has now completed its report, which was due to be placed before the GATT council in mid-November. The report is widely believed to be highly critical of the Japanese taxation policy which is very much geared towards protecting the home drinks industry. If this is the case, the Japanese could scarcely ignore any GATT ruling which obliged them to open up their domestic market more fully to competition from foreign suppliers, as they would run the risk not only of howls of international outrage but possibly of retaliation from other GATT signatories. Even so, it may be many months before Scotch whisky competes with Japanese whisky in Japan on anything like equal terms.

On the company front, Highland Distilleries have once again turned in good year end figures. In the year to August turnover rose 3.7% to £112m while profits rose by 16% to £12.05m. Famous Grouse is still very much the flagship of the Highland fleet; Highland's total share of the UK whisky market is now reckoned at 10%. Rather less encouraging, however, are the losses suffered both on export sales, which failed to meet sales targets, and on Madison, a mixture of whisky and fruit juice designed to appeal to younger people with less discriminating palates.

METAL INDUSTRIES

Steel production in the non-communist world rose by 0.5% in the first nine months of 1986 compared with the same period in 1987. As Table 1 indicates, this relatively static position conceals marked regional variations in fortune.

Table 1 Steel production: IISI member countries

Country	**First 3 quarters 1987**	**1986**	**(1,000 tonnes) % change 86/87**
Belgium	7,169	7,374	-2.8
Denmark	445	489	-9.0
Germany	27,269	28,617	-4.7
France	13,098	13,335	-1.8
Italy	16,876	17,240	-2.1
Luxemburg	2,473	2,786	-11.2
Holland	3,800	3,983	-4.6
Portugal	540	525	2.9
Spain	8,516	8,878	-4.1
United Kingrom	12,646	10,658	18.7
Total EC	**92,832**	**93,658**	**-1.1**
Other Western Europe	17,227	17,039	1.1
United States	58,475	56,772	3.0
Canada	11,016	10,492	5.0
Latin & South America	27,611	26,514	4.2
Japan	71,780	73,923	-2.9
South Korea	12,685	24,944	13.1
Others	24,685	24,944	-1.0
Total (30 countries)	**315,824**	**314,353**	**0.5**

Source: International Iron and Steel Institute (Brussels)

These changes can largely be accounted for by the medium term revaluation of the dollar against other major currencies. The continuing slide in the value of the US currency is progressively closing down US markets to both Japanese and European producers. In this period US imports fell by 6%, a figure which masks marked falls in imports from the EEC, Japan and other producers subject to voluntary restraint and a rise on the part of other third producers. US exports are beginning to grow in volume but these are never a significant proportion of total production.

The improvement in US output between last year and this year becomes more marked when one considers recent months. August production was up by 30% over the same month in 1986 whilst the corresponding rise for September is 35%. Interestingly, the OECD suggest that this improvement is unlikely to last and that demand for steel in domestic markets remains weak. One should note that this conclusion was drawn before the recent substantial devaluations of the dollar which should contribute further domestic demand if import substitution in steel consuming industries proves possible. It is unlikely that 1987 will prove one of the better years of the decade for the US industry whilst looking further ahead remains hazardous owing to uncertainty as to the Reagan administration's ability to tackle the federal budget deficit and the hawkish view which seems to be emerging in Bonn and Tokyo over counterbalancing reflationary measures.

As outlined in previous **Commentaries**, the falling dollar provides major problems for producers on the European Continent but has provided a source of advantage to the UK whose currency remains weak against the Mark. In the first nine months of 1987, EEC production fell by 1.1% over the corresponding period in 1986. If one abstracts from the quantitatively different performance of the UK, the deline averages out at 3.8% for the Community's continental steelmakers. There is some evidence of recovery in more recent months over the bleak projections made early in the year. Indeed, in recent quarters, outturn production has exceeded forecasts in the sense that the falls in output have been less marked than expected. This is accounted for by declining imports and better than projected exports where deliveries to traditional markets, such as the USA, have been offset by higher deliveries to other countries. The Commission is currently a little more optimistic about the fourth quarter detecting some improvement in domestic steel consumption and continued strong export performance. The most recent EEC projection calculates that total EEC output will be 400,000 tonnes higher than 1986, an outcome which looked highly unlikely at the start of the year. However, it should be recalled that 1986 was an extremely poor year in which output in many member states was below that experienced in the trough of the recession in the early 1980s. In the UK and Scotland steel demand and output remain high owing to both improved performance in the industry and favourable exchange rate considerations. In particular, demand for strip products is buoyant and this has resulted in extremely high utilisation of **manned** capacity. The improving prospects for North Sea developments have led to stronger demand for the products of the Tube Division's Clydesdale Works where modest recruitment is taking place. However, as indicated last quarter, the Tubes division remains a weak performer and a cause for concern to BSC executives.

It is against this fairly bleak international background that the European Commission continue to seek agreement on steel policy for the remainder of the decade. The EEC proposals were fully outlined in last quarter's **Commentary.** They involve three broad elements. First, a series of measures, including closure incentives, to eliminate productive capacity of 30 million tonnes per annum. Table 2 indicates the pattern and extent of the required rationalisation.

Table 2 EEC forecasts of excess supply (m tonnes)

Product category	1990 Prod. (EEC fore-cast)	Capacity[1] (end 1986)	Excess[2] supply	Capacity utilisa-tion (%)[3]
Strip	48.4	71.7	11.2	67.5
Plate	6.6	14.2	5.9	46.5
Heavy sections	6.7	12.1	3.7	55.4
Light sections	14.5	27.2	9.1	53.3
Wire rod	10.3	15.1	2.2	68.2
Total	**86.5**	**140.3**	**32.1**	**61.7**

1. Maximum possible production (MPP) which accounts for bottlenecks on individual sites and assumes full utilisation of installed capacity.

2. Assuming a rate of capacity utilisation of 80%.

3. 1990 forecast output as a proportion of 1986 MPP.

Source: EEC

The projected surplus capacity in strip production is equivalent to the output of 3 to 5 major wide stip mills. Table 3 sets out the capacity of the main stripmills currently operating in the Community:

Table 3 Main wide hot strip mills in the EEC

Location	Firm	Capacity (mt)	Gross operating profits as a % of turnover
West Germany			
Bruckhausen	Thyssen	3.36	10.0
Beekerwerth	"	4.92	
Salzgitter	Peine-Salzgitter	3.12	10.0
Bochum	Krupp	3.18	11.0
Bremen	Kloeckner	4.26	10.0
Dortmund	Hoesch	3.60	9.0
Italy			
Taranto(1)	Italsider	3.50	4.0
Taranto(2)	"	4.50	
Bagnoli	"	1.20	
France			
Dunkirk	Usinor-Sacilor	4.80	5.5
Sollac	"	2.80	
Fos-Sur-Mer	"	4.40	
United Kingdom			
Port Talbot	BSC	2.10	8.0
Llanwern	"	2.75	
Ravenscraig	"	1.70	
Belgium			
Liege	Cockerill	2.60	4.0
Charleroi	"	2.60	
Ghent	Sidmar	2.70	13.0
La Louviere	Boel	1.10	2.0
Holland			
Ijmuiden	Hoogovens	4.29	14.0

Source: Financial Times

All of these are large integrated plants which provide significant employment in their localities and, in France, Italy, Belgium and the UK, most of these enterprises are state-owned. These 2 factors contribute one source of the considerable opposition which the Community's proposals have encountered.

The second arm of the EEC measures is a continuation until 1990 of the "quota system", which allocates various tonnages to steel concerns. As indicated in previous **Commentaries**, the quota system is in fact a barrier to rationalisation because it provides inefficient producers with a guaranteed market share thus penalising competitive enterprises such as BSC, Hoogovens and the German industry which would otherwise cater for a greater proportion of EEC demand. Commissioner Narjes has repeatedly stressed that the perpetuation of quotas is dependent on agreement over capacity elimination of the scale deemed necessary by the Commission. The third element of the "Narges proposals" are regional and social measures intended to alleviate the social costs associated with the planned retrenchment. It is estimated that 80,000 workers require to leave the steel industry over the next 3 years and a detailed package of measures has been proposed to compensate these individuals and attempt to generate alternative industry in former steelmaking areas.

As outlined in the last **Commentary** these proposals were to be placed before the Council of Industry Ministers who were due to meet on 21 September. In the run up to that meeting producers, consumers and national governments rehearsed their clear reservations concerning some or all of the Commission's proposals and these were fully aired at the Council. There is no substantial opposition to the view that considerable reductions in capacity require to be identified and implemented. However, Germany and Belgium are opposed to the mechanism advanced by the Commission which involves seeking agreement on the location and timing of closures in advance. The Germans argue that the typical Euro-horsetrading is unsatisfactory and that financial considerations should determine the nature and extent of cutbacks. Table 3 indicates that the Germans would be in a very strong position were such a solution to find favour. At present some of the more highly loaded mills are also the least profitable which would suggest some scope for redistribution and closure, leading to greater allocative efficiency. A necessary condition for such an approach would be a strict adherence to the rules forbidding state aids to ailing steel companies. At present, there is considerable suspicion that both the French and Italians are failing to observe this requirement. In fact, at the Ministers' meeting the Italians explicitly sought a new "Aids Code" to allow them to **legally** subsidise Finsider. In general, there was considerable reluctance on the part of the Ministers to enforce the capacity reductions in line with EEC requirements. All concerned see the need for substantial closures but none are prepared to swallow the medicine themselves. There was some opposition to the proposed closure incentives and outright hostility to the financing of such measures through a levy on production.

There were numerous reservations about the reforms proposed for the quota system with certain states insisting on base periods most advantageous to their national situation. Thus the EEC proposed that 1985 and 1986 form the base on which quotas are to be calculated and several Ministers argued for the inclusion of 1984 in the overall equation. There were moves, strongly opposed by Commissioner Narjes, to stall the proposed liberalisation of the markets for wire-rod and merchant bars due to take place at the end of the year. Indeed, some member states insisted that several categories, including coated sheet (produced at Shotton), should be re-regulated. Such overtures found little sympathy within the Commission and amongst the majority of ministers.

The UK was against any continuation of the quota system whatsoever but found only limited support from the Dutch. Given the considerable uncertainty in the world economic system this can be argued to be an extremely cavalier approach which displays the emphasis on short-term thinking which typifies the present British Government. On the other hand, this line takes some pressure off the UK to participate in the closure programme because they are prepared to allow the present industrial structure to compete in a de-regulated market. There was a considerable body of opinion which sought to break the link between output controls and capacity elimination. This link was successfully defended by the Commission who still maintain the view that unless they are confident that producers will scale down operations then there will be no protection afforded by guaranteed quotas. It seems likely, however, that the German position of letting the market decide who survives is better and fairer than the political solution favoured by Commissioner Narjes. In fact, the recent performance of the UK industry might lead to the conclusion that financial criteria should determine survival in a free market situation and that this option is the most likely arrangement to secure the future of the Ravenscraig complex. However, this conclusion should be resisted for two reasons. First, past subsidies provided under the Davingnon plan are still distorting production costs especially in the case of the French and Italian industries. Secondly, the possibility of global recession increases almost daily and until Bonn, Washington and Tokyo agree a co-ordinated approach to the structural imbalances currently dominating the world economy, such an eventuality cannot be dismissed. The UK industry is currently deriving significant advantages from prevailing exchange rates and has benefited from a lower dollar because it does not require to export significant volumes to the States. BSC has, however, made inroads into Continental European markets. European steel producers and consumers are more North American orientated and a precipitous slide in the dollar would further undermine their competitiveness in these markets. This production would require to be sold either in domestic or third markets which would lead to downward pressure on price which could place in jeopardy the UK's export based performance. In addition, it is not clear whether the UK monetary authorities will be able to maintain the prevailing and favourable exchange rate configuration. For these reasons it may be in the UK's interests for a new deal on quotas to be reached although there is much to be said for the German view that profitability rather than political compromise should engender survival.

Although there was no disagreement on the need or the extent of the social measures, there is little support for the view that producers should finance any part of this programme via 30% of the receipts from the proposed production levy. There is also considerable hostility to the Commission's plan to transfer funds for this purpose from the General budget to the ECSC budget.

Thus, almost every specific proposal tabled by the EEC resulted in dispute and deadlock and several attempts to draw up conclusions resulted in an agreed text which :

(i) **noted** the Commission's proposals to extend the quota system until December 1990 but **agreed** that any future arrangements be conditional on achieving agreement on capacity reductions.

(ii) **noted** the proposed production levy designed to part finance closures and their social costs and also **noted** that the sale of quotas following closure supplemented by funds from EEC and ECSC budgets and reserves could provide further funds for such purposes.

(iii) **agreed** to continue the current Aids Code Rules preventing subsidy of their steel industries by national governments but **noted** the Italian Government's concern that the existing incentives may be inadequate and that further national aid could prove necessary.

(iv) **agreed** to invite the Commission to appoint "three wise persons" to advise the Council and the Commission on how adequate commitments to a reduction of production capacity can be obtained under the hypothesis of continuing for a limited period a quota system and the creation of appropriate financial incentives". This group is scheduled to report by 16 November to the EC and their conclusion will be discussed at a further Council of Ministers meeting on 8 December.

It can be readily seen that the "Narjes Plan" has run into major difficulties although it has not been finally rejected and no doubt a great deal of arm twisting and back scratching is currently being undertaken in an attempt to settle the considerable differences in national positions. Commissioner Narjes is adamant that his plan stands or falls as a whole but given current national outlooks this would appear to be a forlorn hope. The EC looks likely to be required to revise their proposals most notably concerning the financial arrangements to fund the closure incentives and social measures. The continuation of the output quotas hangs on whether this working party can identify sufficient cuts in capacity. There has been considerable political machination over the terms of reference given to the "three wise men". Mr Narjes has gone to great lengths to draw up a mandate which seeks to ensure that they "work within the Commission's plan". In other words this group has no locus to reject the proposed logistics of the restructuring mechanism which dictates early identification of the nominated plant closures. In theory, they would not be allowed to endorse the more sensible German suggestion outlined above. If insufficient closures are identified there will be no new deal on output quotas. If insufficient closure decisions are notified to the Commission by 1 August 1988 then the quota system will be wound up at the end of that year. Thus if the Community's steel producers can't agree to respond to the carrot the Commission stands ready to wave the stick.

One encouraging development to have emerged from the continuing discussions in Brussels is the increasingly Mercantilist attitude of the UK Government towards its steel industry. Whilst the Industry Department's stance can be criticised on economic grounds it has the merit, as noted above, of providing a strong argument against any of the five British integrated complexes being considered for closure. The government has insisted since the start of the Eurofer exercise that Britain had done enough toward restructuring the European steel industry and voiced recent concern over the consequences in the Motherwell area of any significant closures. In a letter to Motherwell Conservative Councillor, Mr John Thomson, Scottish Industry Minister, Mr Ian Lang, stated that "we recognise how much communities, not only in Scotland, but in all steel making areas of the UK, have been affected by the contraction of the steel industry in recent years". **Taking this at face value suggests that the government will flatly refuse to entertain any suggestions of further closures coming from the so-called "three wise men".** This new found social concern sits well with the argument that 'Britain has done enough'. Table 4 indicates the relative performance of the UK during the 'Davignon' years, 1980-85. These data reveal that, although above average in terms of capacity reductions, the case against further cuts is most convincingly expressed in terms of employment. Such arguments are vulnerable to criticism. It could be pointed out that the UK employment performance indicates the relative inefficiency of the UK industry in 1980 and that the necessary employment cuts were greater for the UK. The Financial Times data set out in Table 3 suggest that at least for strip mills, the UK performance in terms of gross margins is not spectacular and falls some way short both of the most profitable concerns in Holland and Germany and of the 13-14% thought sufficient by the EC to cover debt and depreciation charges. However, BSC's net margins are such that it remains one of the few profitable European steelmakers and can expect to remain so in the immediate future. The interim results, due shortly, should confirm the continued financial well-being of the Corporation.

Table 4 Indicators of rationalisation in EEC steel industry 1980-85

Country	Capacity (%)	Aid Granted (M ECU) (1)	Employment in ECSC (%) activity
Germany	-12.9	126.3	-30.9
Belgium	-18.3	46.4	-31.0
France	-20.0	134.4	-37.9
Italy	-17.6	77.7	-47.6
Luxemburg	-24.8	20.2	-18.3
Holland	-22.8	6.2	-11.7
UK	-20.9	367.5	-89.7
Denmark	-7.0	3.8	-22.2
Ireland	484.0	1.1	0.0
Greece	16.0	0.0	n/a
EC(10)	-16.4	783.6	-41.78(2)

1. Aid granted under Article 56(2)(b) of the ECSC Treaty. This aid reflects sums paid to steelworkers in the form of income support in the event of early retirement, unemployment and vocational training.

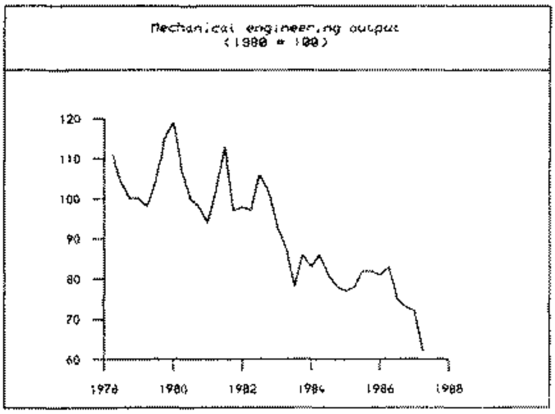
2. EC(9)

The question of whether the Corporation has yet more to accomplish is clearly one which is taxing the mind of BSC Chairman, Sir Robert Scholey. His concern is evident from reports of his speech to the Glasgow Chamber of Commerce on 21 September. In this talk Sir Robert returned to a favourite theme with BSC executives, Ravenscraig's locational disadvantage. In addition, he rightly drew attention to the fact that the current aid regulations dictate that all steel companies require to be profitable in order to finance investment, repay creditors and reward owners and that high output could only be sustained if the product could be sold in domestic and international markets at an adequate level of profit. The question of poor location requires a consideration of both site as well as situation. It is clearly true that Ravenscraig is an irregular site on which the various processes are awkwardly laid out. It is also the case that Ravenscraig's costs are marginally higher owing to the requirement to transport coal and ore inland. However, this is true of Llanwern and Scunthorpe. It appears that Sir Robert chose to identify situational factors such as distance from markets, which on the surface have a certain intuitive appeal. However, we are invited to believe that Ravenscraig's major role within the Corporation is to supply the profitable Shotton complex with high quality con-cast steel. If this is the case then it is far from obvious that the Motherwell site conveys significant disadvantages relative to possible alternate sources in South Wales and Teeside. Perhaps the most worrying aspect of the continual advancement of the locational argument is the refusal to admit proper calculations into the public domain. Whilst it is true that Ravenscraig is the locationally marginal plant it still presents technical advantages which do not exist elsewhere within the Corporation, **at the moment.** Locational factors are best viewed as long-run pressures. Major locational upheavals are usually generated by the adoption of more efficient technologies as is evidenced by the regrouping of BSC's steelmaking round 5 'Heritage sites' following the eclipse of open-hearth processes by oxygen steel making. However, the history of locational change in both the UK and the US is one of the broad and insistent pressure on performance emanating from poor location being dwarfed by the short run costs of locational adjustment. An example of this is the failure to adopt a greenfield coastal site in Scotland once the coal and ore deposits in North Lanarkshire were exhausted. Warren has argued that the costs of developing a greenfield site can be high relative to expansion of an existing plant whereas the benefits are usually small. For these reasons locational decisions which would be correct if one were starting from scratch can appear unattractive when capacity already exists in an inferior location and can be expanded, adopted or replaced at relatively low cost.

This notion is extremely relevant to the situation BSC faces today. It can be assumed that at present and in the future, following denationalisation, BSC will wish to maximise profits which do not necessarily result from high plant loading as the French strip mills attest. The Corporation would therefore withdraw from Motherwell to some further extent only if it could be proven that the profit maximising output could be obtained from an alternative plant configuration. One cannot look at individual plants because the Corporation has the ability to influence profitability through its plant loading policy. One must look at desired output and where it can be most profitably produced with available capital. Large hot strip mills like those in Wales operate most efficiently when production runs are long which limits the Corporation's ability to allocate orders to the plant closest to the customer. Today a decision to build an integrated strip mill in Scotland would be difficult to justify. However, it does not follow that under all circumstances one should rush to close an existing Scottish plant. To justify closure BSC would have to establish that it is more cost effective to close Ravenscraig and distribute its order load across existing strip and coil mills. The increased cost of supplying Dalzell would be pertinent to this calculation as would any investment required at other plants to facilitate this change. Because BSC's heavy end is large relative to the rolling capacity grouped round it, the attractions of consolidating on four sites are evident. However, abstracting from social costs, there could be substantial financial drawbacks involved in the act of moving to a four plant configuration. Given scarce investment capital it is only in relatively disastrous states of the world that any abrupt move would make sense. However, a long term strategy designed to achieve this is available to the Corporation and the Scottish Lobby must guard against it. This may be best achieved by seeking to develop a sustainable role for Ravenscraig in BSC's long range strategic thinking. In this respect the call by Dr Jeremy Bray to emphasise engineering steels deserve close evaluation given Ravenscraig's modern steelmaking facitilities.

As has been pointed out repeatedly in previous **Commentaries** the position of both the Scottish and UK steel industries has not looked brighter since the early 1970s. However, the international economic climate is highly uncertain and this advantage based on exchange rates as well as improved performance could evaporate. Given BSC's locational arguments outlined above, Ravenscraig seems to remain the plant which the Corporation might wish to close, in part or in whole, if there was a substantial downturn. however, if there is no deterioration in the world economic situation then it is likely that Ravenscraig could survive the present EEC drive to eliminate surplus capacity and continue to do reasonably well. Whether the plant can survive premature privatisation is another matter.

MECHANICAL ENGINEERING



The Index of Production of Scottish mechanical engineering for the first quarter of 1987 stood at 62 (1980=100). This provisional figure is 14% below the previous quarter, 25% lower than a year before and 48% down on the high point of 119 in the last quarter of 1979. The exceptionally large fall between the final quarter of 1986 and the first quarter of 1987 reflects a number of factors. First, the long-term decline in output was accelerated at the start of the year by closures and contractions at firms such as Babcock Power, Reyrolle Belmos, Kestrel Marine and a number of other North Sea-related yards. Secondly, the Caterpillar workers' occupation of their factory suspended output from the plant from mid-January. Finally, in spite of the fact that the Index is seasonally adjusted, the severe weather of January is likely to have further depressed output.

As with the July edition, October's **Scottish Chambers Business Survey** indicated an increase in the balance of optimism among firms in the sector (see Table 1). The growing optimism is founded on a strong sales and orders performance. It should be remembered that the Survey measures change among firms which continue to trade but not those which have closed. Thus improved orders and sales trends need not necessarily be seen as portents of output growth. The negative message of the October **Survey** is that a balance of firms has seen employment fall and expect this to continue.

Table 1 Scottish Chambers' Business Survey, Mechanical Engineering, October 1987

	% balance*
Change in optimism	+ 42
Change in orders	+ 44
Change in sales	+ 51
Change in employment	- 5

* The balance figure is calculated by subtracting the "down" responses from the "up" responses

At the UK level, **"The Engineer"** magazine's survey of mechanical engineering companies confirms the optimistic message from Scotland, with a net 49% of firms being more optimistic about prospects for the coming year than they had been three months before.

The Weir Group has continued to build on its successes of recent years. Half-year profits rose by 52% to £6.3m (compared with £4.15m in 1986) on a reduced turnover of £60m (£75m). Sales were lower because of the disposal of its foundry interests to the William Cook Group during 1986. The substantial increase in profits includes some extraordinary items including £970,000 from a pensions holiday taken by the company and interest earnings of £917,000. However, it is clear that the company's position is strong even when these items are excluded. The Group continued its planned expansion with the acquisition in August of Mather & Platt Machinery of Manchester for £7.5m. The loss-making Manchester firm is a pump manufacturer for the power, mining and oil industries and is seen by Weir as potentially profitable following a period of rationalisation, and a further addition to the group's engineeering services activities. Among the contracts won by Weir Group during the quarter are the following: Weir Westgarth is to provide de-salination equipment worth £570,000 to Norwegian Caribbean Lines and the Ministry of Defence; Britain's first geothermal district heating system will use a Weir hydraulic driven pump to raise 250,000 gallons of water per day; Kenya Power and Lighting has placed contracts worth more than £700,000 for pumping equipment for two geothermal power stations; and Mitsubishi Heavy Industries has ordered seven water injection pumps for the Middle East valued at £15m.

The signing of a joint venture agreement with Petrobas, the Brasilian state oil company, brings to 16 the number of companies which have invested in Weir Pumps' project which allows fluids to be pumped from the seabed without prior separation into liquids and gases. (See previous **Commentaries**). This brings to £2m the funds available to Weir's research and development division.

FKI Babcock has announced the loss of 475 jobs at Babcock Power in Renfrew. This will reduce the workforce to 1,375 from 2,570 only ten months ago. The company gave two reasons for the reduction: first, delays have been encountered in finalising overseas contracts; and, secondly, there have been unexpectedly long delays by the CEGB in the placing of orders for new coal-fired power stations. It has been argued in previous **Commentaries** that the run-down of the Renfrew plant could have been avoided if the government had instructed the CEGB to bring forward (necessary) orders. Such a policy would have been desirable, not simply to save the jobs involved in the short-run, but in order to ensure the firm's viability over the longer-term. There is now serious concern that the current batch of redundancies may bite severely into the company's skill base causing it serious problems in the future. According to the company these redundancies are unrelated to the merger of Babcock International with FKI Electrical which was confirmed at the end of August. However, the restructuring plan put forward for the new company may further expose the power division, and a takeover, probably by GEC, cannot be discounted.

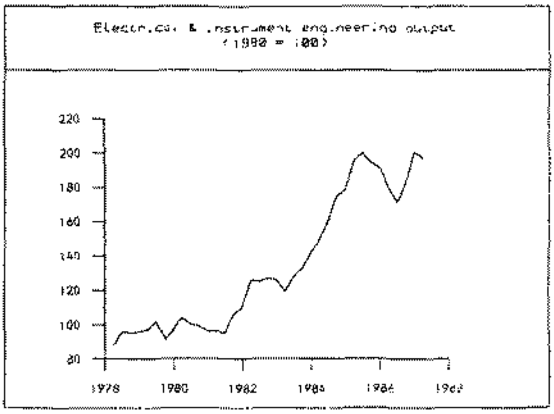
James Howden has won a major contract for boring machines at the UK end of the Channel Tunnel. The order, worth £15m, follows an earlier contract for two smaller machines worth £3.6m. Prior to the stock market crash there was speculation that the Group was vulnerable to takeover as analysts considered it to be under-valued.

The Japanese firm Protec Equipment, part of the Nikko Group, is to set up a plant in East Kilbride to manufacture and design machines which process industrial polymer films. The £3m investment is expected to bring 100 jobs.

The EITB's proposals for the reform of engineering training have met with a predictably negative response from the major firms within the industry. The Board's proposals seek to broaden the scope of engineering training to ensure that training continues throughout a person's working life. In particular, it is argued that supervisors and trainers should receive specialist instruction and that all 16-18 year olds should be trained to YTS minimum levels, at least.

As the Caterpillar saga draws to a sad conclusion there is continuing acrimony over the company's attitude to the severance conditions offered to the workforce and, especially, the use to which the pension fund will be put. It would appear that the efforts of the Caterpillar working party have failed to find a buyer for the plant and that the 1221 redundancies will take place as planned. Meanwhile, the Caterpillar Corporation announced third quarter profits of $146m (compared with a loss of $26m in 1986). Sales were $2.2bn ($1.82bn) and net revenues for the first nine months of the year totalled $5.94bn ($5.55bn).

ELECTRONICS



The provisional Index of Production of the Scottish electrical and instrument engineering industry stood at 197 (1980=100) in the first quarter of 1987. Although this represents a fall of four points (around 2%) on the previous quarter, the Index now stands some 9% higher than a year earlier. It has been noted in previous Commentaries that the production estimates for this sector are subject to considerable revisions and that caveat continues to apply when assessing these new figures.

As with the previous Scottish Chambers' Business Surveys during 1987, the October edition suggests that the electrical and electronic engineering sector is in reasonable health. A balance of 21% of firms were more optimistic about the general business climate in September than three months before. This growing optimism is founded on firms' experiences of growing sales and orders and the expectation that these trends will continue. A net 33% of companies saw orders rise during the third quarter, while the figure for sales growth was +45%. It is notable that the strongest growth in both sales and new orders has come from the rest of the UK (outwith Scotland) and export markets, while domestic demand has remained relatively depressed. The prospects for the

Scottish market in the last three months of 1987 are more encouraging but firms continue to anticipate that other markets will grow more quickly. The generally optimistic outlook for existing firms is confirmed by the industry's investment intentions. While no firm had revised its intentions downwards since the last Survey, 34% and 21% had made upward revisions to their plant and equipment, and buildings investment programmes, respectively.

Turning to company news, Compaq Computer Ltd has announced its intention to bring forward by one year the second phase of its Scottish manufacturing development at Erskine. The plant, which will bring both professional and production line jobs to the area, is expected to employ 350 people when fully operational. Compaq is currently the fastest growing personal computer company in the world.

The appreciation of the Japanese yen means that Terasaki (Europe) Ltd - a Japanese company - will be expanding its Scottish manufacturing operation in order to export its products to Japan. The Clydebank-based company, which makes plastic moulds for circuit breakers, has relocated to new larger premises from Glasgow and intends to add a further 50 workers to its current complement of 70 over the next three years. It is expected that about 85% of the plant's output will be exported to Japan for use in final products.

Two pieces of goods news for East Kilbride. In September, Avex of the United States, announced plans to establish a plant to manufacture circuit boards for the European market in the town. Avex is head-quartered in Alabama but is a subsidiary of J M Huber, a New Jersey conglomerate. The firm will invest US$10m in an existing East Kilbride Development Corporation factory unit and initially the employment level will be around 100 people, rising to 500 within three years. The factory will act as a sub-contractor to electronics companies in fields such as office equipment, computers and medical and industrial products. Encouragingly, there will be both design and research and development capabilities within the plant. Motorola, which has long had a presence in East Kilbride, has decided to base its world centre for the manufacture of the next generation of high-powered semiconductor memory products in the town. Production of the new one-megabit chips will commence in the second half of 1988, and the workforce will be expanded by 200 to 1900 by the end of the 1980s.

According to a report published by the National Economic Development Council, imports of electronic components to the UK grew from 34% of the market to more than 50% between 1980 and 1986. At the same time the trade deficit in these products increased from £77m to £604m. The report argues that, in spite of the UK semiconductor industry's record of profitability, the continued viability and competitiveness of the sector depends on the development of new technologies through a sustained programme of research and development. In this respect, government can assist in two areas: first, by helping UK firms to participate in joint European initiatives; and secondly, by giving financial aid to more process-based projects.

TRANSPORT EQUIPMENT

Developments in this sector vary from the bright to the bleak. In the former category it is the intention of the Ford Motor Company to locate a manufacturing facility in Dundee. The factory will make computerised engine systems and is expected to employ around 500 people when fully operational in 1990. Dundee was selected from among a range of locations including the New Towns of East Kilbride and Cumbernauld as well as a number of European sites. That Dundee was the favoured city is a tribute not only to Locate in Scotland, which persuaded Ford of the benefits of the country, but also to the Tayside and Dundee city authorities whose marketing skills proved vital. Not least among the reasons for choosing Dundee was the likelihood of an adequate supply of skilled labour both from the city's tradition of such work (with firms like NCR and Timex) and its educational institutions. The plant will supply Ford's European operations.

However, at the time of writing uncertainty surrounds the future of this venture. Negotiations with Ford were conducted by the SDA in great confidentiality, and among the issues under discussion was the question of trade union recognition at the proposed plant. Ford sought and have secured a single union agreement with the Amalgamated Engineering Union (AEU), the agreement being reached between Ford management and Mr Gavin Laird, the Union's General Secretary (and a board member of the SDA) and Mr Jimmy Airlie, a full-time official. Since Ford in the UK has been a multi-union company and due to the secrecy which surrounded the deal - neither the TUC nor the STUC were formally consulted or informed - there has been a substantial, negative reaction to the proposal from other unions. It is alleged that the AEU has infringed the TUC's Bridlington Rules which are designed to prevent a union poaching members from others and, prima facie, there is little doubt that this is the case. However, in light of the AEU's and Ford's determination to stand by the agreement as well as the damage to the trade union movement and the Scottish economy which Ford's withdrawal would mean, it is unlikely that this inter-union dispute wil prove fatal to the intention to locate in Dundee.

Elsewhere in the motor industry, Walter Alexander the Falkirk coachbuilder has become a fully listed company on the Stock Exchange. The firm's initial market capitalisation was in the region of £60m. One motivation behind the Stock Exchange listing was to increase the marketability of Alexander's shares in advance of acquisitions by the firm, mainly to further the process of diversification which has been pursued in recent years.

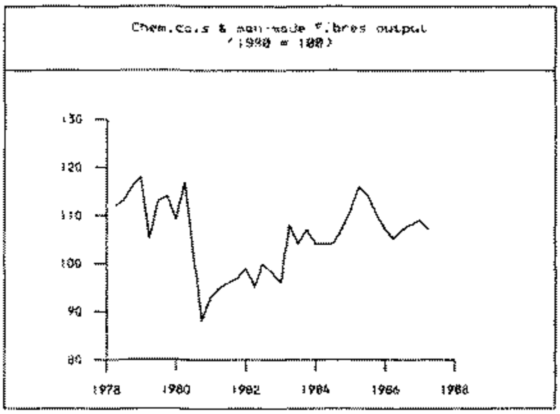
If the motor industry outlook has been one of optimism the developments in shipbuilding continue to be almost unreservedly bleak. At the end of October Scott Lithgow of Greenock announced 551 redundancies to take place in November - 351 full-time workers and 200 contract employees. Trafalgar House, the yard's owners have said that the position will be reviewed on a month-to-month basis. In the short run this is likely to mean the suspension of operations at Greenock where the Ocean Alliance platform is completed for Britoil early in the New Year, with only 100 or fewer employees being retained to preserve the yard on a "care and maintenance" basis. At present Trafalgar House would appear to be willing to pursue this option in the hope of securing orders should there be an upturn in North Sea-related activity. Over the longer term there cannot, realistically, be much hope for the workforce. In recent months the company has failed to secure two contracts. The first of these was with the Ministry of Defence (MOD) for three small craft. Although the company's initial tender price of £20m was considerably in excess of the MOD's valuation, Scott Lithgow was permitted to resubmit its tender. However, at £12.5m, this price was also rejected. Secondly, in competition with a number of yards, Scott Lithgow lost the £20m order for a ferry for the South Atlantic island of St Helena. The only possible, immediate source of work would be the floating dock for the Clyde Trident base.

Yarrow's management has warned that 500 jobs will be lost if it does not receive orders for the Royal Navy's Type 23 frigate. Contracts will be placed early in 1988, probably in January, for the first of the four ships to be built. At present, it is estimated that each ship will cost in the region of £120m. However, the MOD believes that these costs can be cut if the orders are placed as a batch and it is possible that one or more yards will receive multiple orders. Yarrow must be well-placed to win some of this work having successfully completed the first Type 23, HMS Norfolk. Nevertheless, the yard's management appears to be sufficiently concerned about the strength of the competition to point out the employment implications of failure to secure this work. Also of concern to Yarrow has been the continuing delay of the Pakistan government in placing an order worth around £500m. It had been understood that the Scotstoun yard was the only one left in contention and that, once financial arrangements had been negotiated, the orders would be placed. However, following a visit to Turkey by President Zia, it appears that a Turkish yard can now provide the ships at a more competitive price than Yarrow. Moreover, a West German shipyard has also entered the frame as a potential builder.

More optimistically, although on a lesser scale, the St Helena ferry order - which Scott Lithgow failed to land - has been won by Hall Russell of Aberdeen. Worth

£20m, the order was crucial to the yard since the firm has no other prospective orders. The contract will preserve 450 jobs. The Campbeltown Shipyard has secured a £1m order to build a steel fishing boat of its own design for a Shetland owner. This is the third such order for Shetland and will safeguard 90 jobs until mid-1988. The buyer received a £250,000 Sea Fish authority grant for the work.

CHEMICALS AND MAN-MADE FIBRES



The latest Scottish index of industrial production figures reveal that over the first quarter of 1987 output in the chemicals and man-made fibres sector fell by 1% to stand at 107 (1980=100). This figure should, however, be treated with caution given that the index is subject to revision. For instance, the 1% fall in the final quarter of 1986 reported in the last **Commenetary,** has been converted into a 1% rise in the latest figures. Nevertheless there does not appear to have been any significant reversal in the decline in industry output evident since the first quarter of 1985. Assuming the latest figures to be correct, output has fallen by around 7% over this two year period. This stands in complete contrast to the performance of this sector in the UK as a whole where output is up by about 6% over the same period.

The October **Scottish Chambers Business Survey** provides some grounds for expecting some improvement to have occurred over 1987 and indeed to continue into the earlier part of 1988. This follows from the observation that 100% of respondents were as optimistic about the general business situation in their industry as they had been 3 months previously and, given the increases in confidence expressed in earlier surveys and reported in previous **Commentaries,** this implies that the relatively bullish mood has persisted. An explanation for this would seem to lie in a continuation in the upward trend in the volume of new orders and sales, and the expectation that this will continue over the coming three months. This is especially the case for new orders and sales outwith the UK market. A balance of 23% of respondents report an increase in new orders from outwith the UK in the three months to October with an identical balance of firms expecting this to continue until the end of the year. Similarly, a balance of 23% report actual increases in export sales and 41% expect these to improve in the near future.

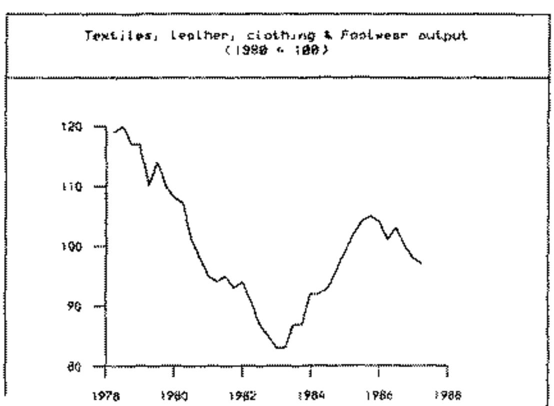
These factors are not expected to reverse the continuing falls in employment which the participating firms have been reporting since the **Survey's** inception. A balance of 49% of firms report some reduction in employment over the three months to October with a balance of 24% expecting similar changes over the final quarter of 1987. A balance of 19% of firms report that they have revised investment intentions positively with the most common aim being to increase efficiency.

In August, the Aberdeen-based company Webco announced its intention to transfer its automotive division to Aberdeen and so create around 110 new jobs in the area. The company specialises in polymer products and its major customers are in the offshore oil, fishing, construction, defence and automotive markets. At the same time, the firm announced the sale of its marine systems division to the American firm Royal International. Unfortunately, Webco has subsequently gone into receivership, putting in jeopardy the jobs of all 250 employees. At the time of writing it is not known if a buyer will be found for the Group as a going concern.

Around the same time another Aberdeen-based firm, Grampian Holdings, announced that it was to acquire the Glasgow-based animal health products firm Robert Young for about £12million. The acquisition will enable Grampian to widen its interests to health products for larger farm animals thus complementing its existing focus on products for domestic animals.

Two significant investments in the chemicals sector were also announced in August. First, the most significant concerns BP's decision to invest up to £50million in rebuilding the hydrocracker which was extensively damaged in the explosion and fire in March at the Grangemouth refinery. This would appear to secure the immediate future of the 1,200 people employed at the site as re-building will incorporate the latest technology and replace, ahead of schedule, the four 300 tonne reactors serving the hydrocracker which escaped damage at the time of the incident. Up to 250 workers will be employed during the construction phase of the programme. Secondly, the ethane cracker plant operated by Exxon at Mossmorran is in the process of undergoing a £4.2million programme of improvements. These are aimed at reducing the environmental impact of the complex and will involve 500 workers, 280 of them brought in from outside. Some will be involved in preparatory work for the construction of a planned seventh furnace which is expected to cost around £10million.

TEXTILES, LEATHER, CLOTHING & FOOTWEAR



The government's index of industrial production for the textiles, clothing, leather and footwear sector declined by one percentage point between the last quarter of 1986 and the first quarter of 1987. The level of output of the same index in the four quarters ending with the first quarter of 1987 was four percentage points below the level of the same index during the previous four quarters. However, the October **Scottish Chambers' Business Survey** shows a marked turnaround in the performance of this sector. Whereas 60% of respondents to the **Survey** reported *no change* in their level of confidence about the general business outlook over the previous three months, expectations for the forthcoming quarter showed that three times as many firms were more optimistic than were less optimistic. A similar pattern is revealed in responses to questions about the volume of new orders. Whereas the balances of respondents reporting an increase in new orders over the previous quarter was only 4%, the balance of respondents reporting an increase in new orders over the forthcoming quarter was no less than 61%. A balance of 17% expected an increase in employment over the next three months. Eighty one percent of respondents said that the principal factor constraining an increase in their output was sales.

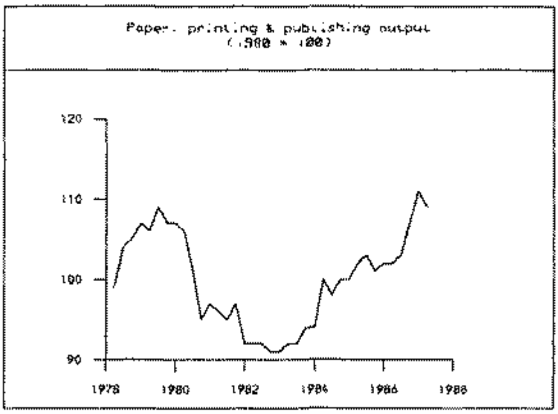
During the last quarter a number of Scottish textile companies reported encouraging developments. Don & Low has begun production of non-woven spun-bonded fabric in a £6million factory on a green field site near Forfar. The company, which is a subsidiary of Shell UK, intends its new products to break into the industrial textiles markets dominated by mainland European producers. The company is investing a further £3million to expand its established business of polypropylene extrusion and weaving.

Another Tayside-based firm, Low & Bonnar, of Dundee, has invested £7.3million to produce a new product, Carelle, used in clothing.

The Aberdeen high-technology yarn spinners Richards have taken their first step into the manufacturing and marketing of clothing through the acquisition of the Lovat Group of Ayrshire. The Lovat Group consists of three trading companies - Kyle Knitwear, Glenallan Knitwear and Lovat Enterprises who manufacture and market medium-priced women's, men's and children's knitted outerwear. They have premises in Katrine and Kilmarnock. Kyle and Glenallan are just completing a re-equipment programme involving an investment of more than £300,000 in the past year.

The giant textiles group, Coats Viyella, formed from the merger of Vantona and Coats Patons, showed a 25% increase in pre-tax profits for the half-year to end June, despite a slight fall in turnover for the same period.

PAPER, PRINTING AND PUBLISHING



Tha latest figures for the index of industrial production in Scotland show that output in the paper, printing and publishing sector fell by just under 2% over the first quarter of 1987 to stand at 109 (1980=100). This follows a period of continuous, although slow, growth which started in the fourth quarter of 1985. However, the relatively large expansion in output recorded over the second half of 1986 helped to ensure an overall increase in output of 6% between the first quarters of 1986 and 1987. Scotland continues to outperform the UK as a whole in this sector, the latter having recovered later and less strongly from the recession of the early 80's. Currently the UK index stands at 105, 1% down on the last quarter of 1986 and showing a 5% increase when the four quarters to March 1987 are compared to those for a year previously.

Respondents to the October **Scottish Chambers Business Survey** in this sector fell into line with their colleagues elsewhere in Scotland. Whilst in the last **Commentary** it was reported that a significant balance of responding firms were less optimistic in the July **Survey**, the latest **Survey** shows that a balance of 20% were generally more optimistic than they had been three months previously. This is reflected in a healthy positive balance reporting increases in new orders and sales over the past three months, in both domestic and export markets. This upward trend is expected to continue through to December, and the most significant source of new orders and sales is expected to be in export markets. Just how much this will be affected by recent events in financial markets and the fears of a downturn in world economic activity remains to be seen, although some light should be cast on this by the January **Survey**. Firms in this sector have continued to shed jobs with a balance of 31% reporting falls in employment over the three months to October. This is matched by a balance of 32% of respondents expecting a fall over the final quarter of 1987. In contrast, a balance of 21% report an upward revision in investment intentions. Those who implemented new investment in recent months were mostly seeking to increase efficiency although a significant proportion were simply replacing worn out capacity. Finally, the lack of orders or sales remains the most common factor put forward as the major constraint on output levels faced by these firms.

The Glasgow publisher, William Collins, announced in September that it was willing to pay £95million to take over half of the New York publisher Harper and Row from Rupert Murdoch's News America organisation. The latter oly purchased Harper and Row in March and the move strengthens the links between Collins and Mr Murdoch who has a significant stake in the Glasgow organisation. Harper and Row already act as the US distributor for Collins' books and it is proposed that they be run by a separate board, in New York, comprised of an equal number of directors from Collins and News America. At the same time, Collins produced interim figures that showed pretax profits for the first half of the year to have risen by 22% to £6.3million.

The most significant development in the paper industry reported recently was the announcement in late August that Stirling Fibre are considering the Gartcosh steel mill as a possible site for a new news print manufacturing plant. The proposal would involve £130million of investment, and provide for around 200 jobs, to produce 200,000 tonnes annually of newsprint from recycled waste paper. In addition it would create around 200 jobs in support services such as the collection and distribution of materials. The firm awaits the result of a feasibility study commissioned earlier this year but have already made approaches to British Steel about the plant.

Services

BANKING, INSURANCE AND FINANCE

It has been a dictum of many years standing that Unit Trust sales reaching new highs signals the end of the Bull market. Recent events have confirmed once again its truth with sales of unit trusts in the first six months of the year at £6.95bn not far below the £8.76bn figure for the whole of 1986. The rise has been particularly significant for Scotland as it reflects, in part, the renaissance of the Scottish unit trust industry under the leadership of Standard Life. Until the mid-1970s the unit trust industry flourished in Scotland due in large part to the efforts of Ivory & Sime. The changes in ownership of Save and Prosper led to Ivory & Sime's departure from the industry and the nadir of the Scottish unit trust industry with an almost insignificant representation in one of the fastest growing sectors of the investment industry. Since 1984 a transformation has been effected. The long overdue entry of the Scottish Life offices into the market on a significant scale has been rewarded with an increasing share of the UK unit trust market being taken by Scottish investment managers. Standard Life's success alone has been phenomenal, with an increase in unit trust funds from £102.4m in 1984 to £1,942.5m in 1986. At the end of 1986 it was the fourth largest unit trust management group and operated the two largest unit trusts in the UK. Other life offices had even faster rates of growth with Scottish Mutual up from £1.8m to £231.9m and Scottish Equitable from £9.4m to £358.3m. The independent fund managers also recorded substantial increases with Murray Johnstone, for example, up from £16.5m to £137m. By the end of 1986 unit trust funds under management in Scotland were around £3,700m excluding the fund managed for the TSB by Murray Johnstone (£356m) whilst Scotland's share of the unit trust market was around 12% by value and 10% by number of trusts.

Unfortunately, whilst the success of the Scottish fund managers in the unit trust industry is to be lauded the record of the UK unit trust industry in other respects is cause for concern and casts a shadow over the perceived advantages of further liberalisation of financial markets.

Over the last ten years restrictions on competition in the unit trust market have been progressively reduced. Management charges were removed from control in 1979, in 1986 proposals for wider investment powers were promulgated and more recently the SIB has suggested changes in the administration and pricing of units.

Barriers to entry in the unit trust market are low. It is easy for almost any financial services group to set up a unit trust. The key to a successful trust is distribution; developing and exploiting a satisfactory marketing channel. Excellent investment performance is certainly not a hindrance to unit trust sales, top of the league tables undoubtedly makes sales easier, but it's doubtful if it's too important. Unit trusts are not generally aimed at the sophisticated investor and are sold on the basis of expectations of substantial future returns. These expectations are affected by past performance but good advertising can undoubtedly influence expectations irrespective of past history. In any event short term performance is almost certainly a random variable and management groups with enough different unit trusts can count on at least one trust performing well just by chance. The low barriers to entry have resulted in an explosion of unit trusts on offer. The number of unit trusts has increased from less than 400 at the end of 1978 to more than 1,000 now whilst the number of management groups has increased from 90 to 154.

Two aspects of this increase in the number of unit trusts merit particular comment: the variety of unit trusts on offer and the management charges levied. The growth in the number of unit trusts has been accompanied by a limited increase in the variety of unit trusts on offer. The globalisation of equity markets has resulted in an increase in the number of unit trusts offering specialisation in overseas markets whilst the liberalisation of the tax position has resulted in an increase in the number of fixed income trusts. There has also been an increase in types of special situation trusts. Improvements in the variety of new trusts on offer, however, has been disappointing. Innovations in the unit trust market have been few and far between. Few funds trade in any of the financial instruments developed in recent years. More importantly perhaps, funds offering investors a less active investment policy, such as index funds, have received scant attention and are not available to unit trust investors. There appears to have been a failure of competition to spawn new and useful types of unit trusts.

The failure of competition is even more graphically illustrated by the level of unit trust charges. Management charges of unit trusts consist of an initial charge together with an annual management fee. Prior to 1979 the DTI restricted the total fee over a twenty year period to thirteen and a quarter percent of the initial value of the fund. The result was to restrict charges for the vast majority of funds to a five percent initial charge and a three eights percent annual management charge, or to a three and a quarter percent initial charge and a half percent annual management charge although fees considerably smaller than this were not uncommon. The average charge was around twelve and a half percent. The totalling of charges over twenty years is not a very satisfactory method of measuring total charges. A more realistic method is to recognise that a half percent paid at the end of twenty years has a lower present value than a half percent paid now. On such a basis (assuming an eight percent discount rate) the average charge in 1978 was just over eight percent. With the removal of the DTI controls charges increased and have gone on increasing. By 1986 the most common combination of charges had become a management charge of five percent together with a one percent annual charge. For all English trusts, on average, the total had increased to more than twenty three percent over twenty years or almost fourteen percent on a present value basis. The figures for Scottish funds were slightly lower at twenty two percent and thirteen and a third percent but the differences are not great. Thus, despite a vast increase in the number of unit trusts competing in the market the cost of unit grust services has greatly increased. Competition has not delivered its promised benefits. In the unit trust market it has not greatly increased the range of alternative types of unit trusts on offer nor has it reduced the costs to consumers. One might anticipate that on the return of a bear market many of these unit trusts will disappear together with some of the management groups but it is difficult to believe that management charges will ever be reduced to former levels. The experience in the unit trust market suggests that competition in financial markets may not be as beneficial as some of us have believed and lead to renewed calls for control and regulation. It also suggests that scope exists for Scottish fund managers to consolidate their position in the fund management market by offering, for example, a wider variety of trusts and even perhaps exploiting their undoubted economies of location to offer price competitive investment services. The reappearance of bear markets in which gains are less easy to acquire may provide the ideal environment for cost cutting innovations and the offer of financial instruments such as index funds.

DISTRIBUTIVE TRADES

From the evidence of the October Scottish Chambers Business Survey, Scottish wholesalers enjoyed a good third quarter, with a net 39% of respondents reporting sales increases during the period. A large majority of wholesalers expected further sales growth before the end of the year.

In spite of the good sales performance in this sector there was a slight balance of respondents reporting a decline in employment during the last quarter; as with previous surveys the trend is away from full-time employment towards part-time. Expected wholesaling sales trends are even more healthy, with a balance of 47% of respondents anticipating increased sales in the next three months, although obvious seasonal factors probably play a role here. The expected pattern of employment over the net quarter is some growth in part-time employment, with full-time holding steady.

Table 1 shows the geographical responses to the Survey. The most noticeable element of the table is the much more optimistic results obtained by Aberdeen wholesalers compared with their fairly gloomy expectations in the July Survey. By contrast, in Glasgow only a net 2% of respondents actually experienced the rise in sales anticipated by a net 58% last quarter. As with recent Surveys, Edinburgh wholesalers are the most bullish, with both actual and expected sales running at high levels.

Table 1 Geographical response to October 1987 SCBS: wholesaling

		Balanceofrespondents (%)			
		G	E	D	A
Overall confidence	UP	- 6	+30	+16	+45
Actual sales	UP	+ 2	+88	+33	+53
Expected sales	UP	+29	+85	+42	+44
Actual employment	UP	- 8	+23	+ 2	+ 3
Expected employment	UP	+ 7	0	0	+ 3
Investment intentions	UP	+11	+ 4	+18	+20

Key: G = Glasgow E = Edinburgh
D = Dundee A = Aberdeen

As with wholesaling, the Survey results for retailing are encouraging. The balance of more optimistic respondents, 42%, is the highest ever recorded in this sector. This confidence is based on both realised and anticipated increases in sales. A balance of 29% of firms had sales growth in the last three months, and no fewer than a net 58% expect further sales growth in the final quarter; no doubt the Christmas effect plays some part in this, although respondents are asked to ignore seasonal factors in their returns. Overall employment was flat in the third quarter, a net fall in full time employment being offset by a rise in part-time. A balance of 26% of respondents expect employment increases in the final quarter.

Table 2 Geographical response to October 1987 SCBS: retailing

		Balance of respondents			
		G	E	D	A
Overall confidence	UP	+23	-31	+41	+68
Actual sales	UP	+36	+28	+27	+26
Expected sales	UP	+51	+27	+68	+41
Actual employment	UP	-57	+20	+17	- 1
Expected employment	UP	+56	+19	+ 6	+42
Investment intentions	UP	+19	+20	+12	+18

Key: G = Glasgow E = Edinburgh
D = Dundee A = Aberdeen

As was the case in wholesaling the largest change in the geographical responses comes in Aberdeen, where pessimism last quarter has given way to optimism on both sales and employment (Table 2). Only in Edinburgh is overall confidence down on balance, despite improved sales and employment. Encouragingly, in all four cities both expected employment and investment intentions show positive balances.

TOURISM

Following a disappointing year in 1986 there has been some evidence of an upturn in the level of tourism to Scotland during 1987. The trends in occupancies for hotels, self-catering accommodation and touring caravan sites are encouraging, particularly during the peak summer months of July and August.

Table 1 Hotel occupancy in Scotland: A comparison 1986-87 (%)

Month	Bed occupancy 1986	Bed occupancy 1987	Room occupancy 1986	Room occupancy 1987	Overseas occupancy 1986	Overseas occupancy 1987
Jan	24	17	32	24	2	1
Feb	26	23	37	34	3	2
Mar	30	30	41	41	4	2
Apr	34	35	44	45	4	4
May	44	43	57	53	7	9
June	49	54	59	64	9	12
July	54	54	61	62	12	14
Aug	59	64	66	72	13	17

Source: STB

The STB sample for the hotel occupancy survey covers over 200 hotels throughout the country (Table 1). Whilst this is a small sample size the trend information is an indication of how well tourism is performing. It is worth noting the increased share of overseas occupancy since overseas visitors have a higher average daily spend than domestic tourists. The trend figures are supported by improved occupancies in the self-catering sector throughout the summer season with the exception of June (Table 2).

The self-catering occupancy survey covers over 700 properties in Scotland and distinguishes between caravans, chalets and houses, cottages and bungalows. Whilst all these sectors have performed well, static caravan sites have performed less well than the others, and there was a sharp decline in occupancies in June in comparison with 1986 and similarly in August. The areas which appear to have

Table 2 Occupancies of self-catering properties in Scotland: A comparison 1986-1987 (%)

Month	Occupancy of properties 1986	Occupancy of properties 1987
April	22	35
May	40	46
June	57	56
July	74	78
August	81	83
September	49	63

Source: STB

performed best in both the hotel and self-catering sectors are Dundee and the Fife coast, the Forth Valley, Ayrshire, Edinburgh and Mid Lothian, and Dumfries and Galloway. Perthshire and the HIDB areas have performed particularly well in the self-catering sector. Aberdeen and the rural parts of the North East have not recovered as strongly.

The share of overseas bednights has increased in all areas of Scotland, reflecting the buoyancy of the dollar before the stock market crash and diminished fears in the US market about the threat of international terrorism. These occupancy trends should give added impetus to new and planned developments such as the New Lanark Mills, the Tollbooth project in Edinburgh being undertaken by Heritage Projects and the Glasgow Garden Festival which opens in May 1988.

The Labour Market

EMPLOYMENT

Table 1 summarises recent trends in the numbers of employees in employment in broad industrial groups in Scotland. In the year to March 1987 the total of employees in employment in Scotland fell by approximately 9,000 to 1,866,000. In fact the number of employees has fallen, on an annual basis, in every quarter since 1985 Q2. The fall in male employees in employment over the year to March 1987 was actually 16,000 and the net change in the total of employees also reflects an increase of 7,000 in female employment. However, full-time female employment actually fell by 3,000 over the year. In effect around 19,000 full-time jobs were probably lost in the year to the first quarter of 1987 and these were only partially compensated for by an increase in part-time female employment of 10,000.

As has been noted in past **Commentaries** these changes reflect longer-term shifts in the pattern of employment in Scotland away from male full-time employment and in favour of female part-time employment. Thus the latter category of employment is the only one currently above its level at the last peak year of economic activity which occurred in 1979. Indeed, currently, **full-time** female (as well as male employment) lies below its level in the 'trough' year of 1983. If recent trends in the total of employees in employment are considered discouraging, this judgement can only be reinforced by consideration of the trends in full-time equivalent employment.

The change in the broad industrial composition of the workforce over the year to March 1987 also reflects longer-term trends in that the number of employees continued to fall in production and construction industries (by approximately 23,000) and to increase in the service industries (by 15,000). As compared to its 1983 (1979) level, the total number of employees in employment has fallen by 1.7% (11.2%), employment in production and construction industries has fallen by 10.1% (30.1%) - mainly due to the drop in manufacturing employment- and employment in services has risen by 2.5% (3.2%).

The choice of the 'base year' against which to measure changes is clearly significant, and government supporters' preference for 1983 is understandable as is its critics' preference for 1979. Even if 1983 is selected as the base year, however, the employment data for March 1987 are not terribly encouraging. However, it should be borne in mind that the most recent employment data refer to early 1987. It remains to be seen whether the recent optimistic **Scottish Chambers Business Survey** results do manifest themselves in the employment data.

Table 2 presents the detail of the industrial composition of employees in employment in Scotland. It is clear that the fall in the number of employees in production and construction industries over the year to March 1987 is concentrated in manufacturing - particularly in metal goods etc. (which registered a fall in employment of 7,000 and other manufacturing (a fall of 9,000) - and in the energy and water supply industries (a fall of 10,000). Again, the increase in the number of employees in the service industries as a whole was not evenly distributed with banking, insurance and finance and education, health and other services being the major gainers (of 11,000 and 10,000 respectively) and retail distribution and transport and communications shedding employment (by 4,000 and 5,000 respectively).

Over the longer term, changes in the

Table 1 Employees in employment in Scotland : Industry aggregates

	Male	Female All	Female Part-time	Total	Production and construction inds.	Production inds.	Manufacturing inds.	Services inds.
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1984 Mar	1,040	840	341	1,880	633	498	432	1,210
June	1,043	858	347	1,901	635	499	434	1,231
Sept	1,053	851	346	1,904	638	499	434	1,229
Dec	1,045	857	356	1,902	637	499	433	1,233
1985 Mar	1,039	853	352	1,892	630	493	430	1,230
June	1,040	864	362	1,904	627	491	430	1,244
Sept	1,044	868	363	1,912	625	489	430	1,252
Dec	1,032	866	366	1,897	616	481	423	1,251
1986 Mar	1,020	855	361	1,875	604	471	415	1,240
June	1,023	865	364	1,888	597	463	410	1,260
Sept	1,022	865	365	1,887	596	461	409	1,261
Dec	1,011	866	372	1,877	588	452	405	1,259
1987 Mar	1,004	862	371	1,866	581	443	398	1,255

Source: **Department of Employment, especially supplement to Employment Gazette, October 1987**

industrial distribution of employees in employment have been fairly dramatic as past issues of the **Commentary** have documented. Thus since 1979 (1983) the number of employees fell in all of the following industries: agriculture, forestry and fishing - by 37.5% (18.1%); energy and water supply - by 36.1% (32.4%); metal manufacturing etc. - by 42.7% (14.5%); metal goods - by 31.4% (9.2%); other manufacturing - by 34.3% (10.3%); construction - by 11.0% (2.9%); and, exceptionally among services, transport and communications - by 21.5% (10.9%). Only three industries recorded employment increases irrespective of the choice of base year, and each of these were in the service sector, viz: public administration and defence where employment rose by 4.1% (3.5%); education, health and other services - by 8.7% (5.3%); and, most spectacularly, banking, insurance and finance by 31.7% (15.7%).

Overall since 1979 (1983) service sector employment has grown from 58.2% (64.0%) of total employment to 67.3% and it is clear from the above discussion that shifts away from manufacturing industries in particular and in favour of financial industries have been much more dramatic than these aggregate figures suggest.

UNEMPLOYMENT: STOCKS AND FLOWS

Table 3 summarises recent changes in the stock of unemployed in Scotland. The third quarter of 1987 has seen a fall in unemployment, on a seasonally adjusted basis, of 14,000 to a level of 319,800 and an unemployment rate of 12.9% in September (although this figure is as yet provisional). Male unemployment in the quarter fell by 9,300 to 226,400 which represents an unemployment rate of approximately 15.7%. Female unemployment fell by 4,700 which constitutes a greater proportionate fall than that observed in male unemployment.

Over the year since September 1986 total unemployment (the rate of unemployment) has fallen by 24,500 (a full percentage point), of which 12,400 reflects a fall in male unemployment (a 5.2%) and the remainder, 12,100 represents the contraction in female unemployment (an 11.5% fall). Whilst reductions in unemployment are, of course, generally to be welcomed, it is not as yet clear what the source of these falls is. The unemployed may leave the register (or less may join the register) because of an upturn in the demand for 'permanent' workers, due to increases in the numbers covered by special employment schemes or as a consequence of declining participation. Matters should become clearer once more recent employment data are available.

Table 4 summarises the recent past of flows into and out of unemployment. On an annual basis inflows into unemployment fell in each of the months in the third quarter of 1987 and outflows rose in each month. Whilst the gross flows into and out of unemployment are quite large in relation to the stock (around 17% in September 1987) average measures of duration (5.59 months) can be very misleading since it is clear that unemployment experience differs widely across individuals.

Table 5 Long-term unemployment : Scotland July 1987, July 1986

Age	Long-term unemp	Total unemp.	% long-unemp.
July 1987			
Less than 20	11,535	51,181	22.5%
20-34	57,563	158,121	36.4%
35-54	53,724	101,183	53.1%
55 and over	19,390	32,360	59.9%
Total	142,212	342,845	41.5%
July 1986			
Less than 20	12,198	59,516	20.5%
20-34	40,727	164,776	36.9%
35-54	53,397	101,736	52.5%
55 and over	19,762	32,960	60.0%
Total	146,084	358,988	40.7%

Source: Department of Employment

Table 2 **Employment: Scotland Employees in employment ('000s)**

SIC 1980	Agriculture forestry and fishing 0	Energy and water supply 1	Metal manufacturing and chemicals 2	Metal goods, engineering and vehicles 3	Other manufacturing 4	Construction 5
1979	48	72	82	258	265	155
1983	37	68	55	195	194	134
1984 Mar	36	66	52	189	191	136
June	35	65	53	189	192	136
Sept	37	65	53	187	193	139
Dec	33	65	53	188	192	138
1985 Mar	32	63	53	187	190	137
June	34	60	52	188	191	136
Sept	36	59	51	189	189	136
Dec	31	58	50	186	187	135
1986 Mar	31	56	49	184	183	133
June	31	53	48	182	181	134
Sept	30	51	48	180	181	135
Dec	29	47	47	179	179	136
1987 Mar	30	46	47	177	174	138

	Wholesale distribution hotels & catering 61-63 66-67	Retail distribution 64/65	Transport and communication 7	Banking insurance and finance 8	Public administration & defence 91-92	Education health & other services 93-99
Scotland						
1979	197	194	135	123	170	403
1983	188	183	119	140	171	416
1984 Mar	180	183	118	138	170	421
June	193	186	115	141	170	425
Sept	193	186	115	146	170	419
Dec	187	196	114	146	169	422
1985 Mar	188	184	115	147	169	427
June	195	185	115	146	170	432
Sept	198	188	115	151	172	428
Dec	191	193	113	150	171	433
1986 Mar	190	187	111	151	172	428
June	199	186	110	155	175	435
Sept	199	187	111	158	176	431
Dec	190	189	109	159	176	435
1987 Mar	189	183	106	162	177	438

Source: Department of Employment, especially supplement to Employment Gazette, October 1987

Table 5 presents information on the duration of unemployment by broad age category as of July 1986 and July 1987. Inspection of the table reveals that the total of long term unemployment fell over the year by 3,872 which may in part reflect a favourable impact of the government's special measures. Notice, however, that the percentage of long-term unemployed among the total unemployed rose marginally, reflecting the greater proportionate fall in short-term unemployment.

Vacancies

Each of the months in the third quarter of this year registered an increase in vacancies (both as compared to the preceding month and the same months in the preceding quarter), and over the quarter as a whole vacancies increased by 2,100 (Table 6). Vacancies are consequently now higher than at any time since 1979.

Table 7 **Vacancy flows at jobcentres, standardised, seasonally adjusted, Scotland (000s)**

		In Flow		Out Flow		Placings	
		Level	Average change three months ended	Level	Average change three months ended	Level	Average change three months ended
1986	Sep	22.1	0.4	21.9	0.6	18.7	0.5
	Oct	21.1	0.2	22.2	0.7	18.9	0.7
	Nov	19.2	-0.5	18.8	-0.6	15.8	-0.5
	Dec	19.4	-0.9	19.7	-0.7	16.6	-0.7
1987	Jan	19.6	-0.2	19.1	-0.7	16.1	-0.9
	Feb	18.5	-0.2	18.2	-0.2	15.6	-0.1
	Mar	21.6	0.7	21.2	0.5	18.2	0.5
	Apr	18.5	-0.4	18.4	-0.2	15.7	-0.1
	May	18.6	0.0	18.5	0.1	15.8	0.1
	Jun	21.3	-0.1	21.0	-0.1	17.8	-0.1
	Jul	19.6	0.4	19.3	0.3	16.6	0.3
	Aug	19.9	0.4	19.6	0.4	17.1	0.4
	Sep	20.9	-0.1	19.4	-0.5	16.3	-0.5

Source: Department of Employment Gazette

However the flows into and out of the stock each month are almost as large as the stock itself so that the average duration of vacancy is very short (Table 7). Nevertheless, the MSC's Survey of Long Duration vacancies suggests the presence of some skill shortages as does the **Scottish Chambers Business Survey.**

The combined evidence of falling unemployment (including long-term unemployment) and increasing vacancies is suggestive of an improvement in Scottish labour market conditions. It remains to be seen, however, whether this marks a sustainable change in the fortunes of the Scottish labour market.

INDUSTRIAL RELATIONS IN SCOTLAND

Trade union issues have tended to dominate industrial news in recent months. The continuing decline in trade union membership (down 13% over the past eight years) coupled with fears of further reductions in the face of further government proposals for privatisation, prompted a number of new initiatives. The STUC, for example, has led discussions within the movement on how best to promote trade unionism. Proposals for new strategies include: initiatives for young workers; focussing on issues relating to working women, and targetting new towns. However, suggestions for the establishment of a new review body to regulate behaviour between trade unions, developments in new and greenfield sites, and single union agreements, had the greatest immediacy in the light of developments at the proposed Ford factory at Dundee.

The Ford Motor Company's announcement of a development at Dundee, to produce engine management systems, included news that the AEU had concluded a 'single union' agreement with the company. The agreement, which is similar to others concluded at 'greenfield sites', may have been necessary to ensure that the company located the development in Dundee.

Table 3 Scotland - Unemployment - seasonally adjusted (excluding school leavers) ('000s)

Date		Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate: percentage of working population
1984		235.2	106.4	341.6			14.0
1985		243.6	109.3	353.0			14.2
1986		248.1	111.8	359.8			14.5
1986	September	238.8	105.5	344.3	-0.2	0.9	13.9
	October	239.8	105.3	345.1	0.8	1.1	13.9
	November	241.1	105.1	346.2	1.1	1.2	14.0
	December	242.6	104.8	347.4	1.2	1.1	14.0
1987	January	244.4	104.9	349.3	1.9	1.1	14.1
	February	243.4	102.9	346.3	-3.0	0.3	14.0
	March	242.4	101.4	343.8	-2.5	-0.1	13.9
	April	242.5	102.8	345.3	1.5	0.0	13.9
	May	237.9	98.8	336.7	-8.6	-1.6	13.6
	June	235.7	98.1	333.8	-2.9	-2.3	13.5
	July	232.9	98.0	330.9	-2.9	-3.1	13.4
	Aug (r)	229.4	97.3	326.7	-4.2	-3.3	13.2
	Sept (p)	226.4	93.4	319.8	-6.9	-4.0	12.9

(p) Provisional and subject to revision (r) Revised
All figures are individually rounded and therefore may appear not to balance.

Source: Department of Employment

Table 4: Unemployment flows - standardised, unadjusted: Scotland ('000s)

Month ending		In-flow				Out-flow			
		Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year	Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year
1986	Sept	59.2	12.3	46.9	2.7	54.4	4.1	50.3	4.3
	Oct	49.0	3.3	45.7	1.4	53.1	5.4	47.7	2.9
	Nov	45.1	1.8	43.3	1.9	44.4	3.3	41.0	-0.8
	Dec	40.4	1.4	39.0	1.7	34.9	1.7	33.2	-1.9
1987	Jan	46.0	7.3	38.7	2.2	30.8	1.3	28.2	5.8
	Feb	42.8	3.8	39.0	1.3	50.7	4.1	46.6	4.5
	Mar	38.3	2.3	36.0	0.8	47.1	3.1	44.0	5.4
	Apr	42.4	1.8	40.6	2.8	42.7	2.0	40.7	-0.4
	May	35.5	1.5	34.0	-2.6	50.5	2.1	48.4	5.7
	June	38.1	1.5	36.6	-3.3	44.4	1.6	42.8	2.1
	Jul	50.5	1.8	48.6	-1.5	47.7	1.9	45.8	3.7
	Aug	39.3	1.2	38.0	-1.9	45.1	1.6	43.5	3.1
	Sept	53.6	9.9	43.7	-3.2	57.2	2.6	54.6	4.3

Source: Department of Employment

Nevertheless, it appeared to be in breach of both established union principles and more detailed agreements between unions represented at the various Ford establishments in the UK. TASS and ASTMS lodged complaints with the STUC and the TGWU threatened to mount a recruitment campaign at Dundee and to black components from the factory.

The AEU's agreement poses difficulties for both the STUC and TUC. The former wants to encourage inward investment, the latter has been confronted by the possibility of major divisions within the movement over single union agreements and union recruitment policies. Both recognise the possibility of further trade union legislation if the movement does not resolve such recruitment issues.

On an historical note, the expansion of the Scottish car industry in the 1960's was accompanied by similar disagreements between unions as to which should organise and represent those employed at both Bathgate and Linwood. In both cases, a small number of unions sought to reach agreement with the employers, restricting the number of unions to be represented. It is to be hoped that the current arrangement between Ford and the AEU is more successful than its predecessor the 'Bradloch Agreement' signed with the Rootes Motor Company in the early 1960's.

The trade union movement is also acutely aware of the potential implications of the Local Authority Bill. This will require councils to put out to tender an increasing proportion of five areas of their work - refuse collection, cleaning of buildings, catering, parks and open space maintenance, and vehicle repairs and maintenance - and hence adversely affect both employment and union membership.

Public sector trade unions have already witnessed a decline in membership arising from the imposition of spending guidelines

on local authorities by the Scottish Office, as well as earlier measures to increase competitive tendering. Since such restrictions reduce promotion opportunities and staff morale, longer term difficulties for local authorities may emerge.

Closures, cutbacks and rationalisations continue to affect the trade union movement. In shipbuilding the announcement of a further round of redundancies at Scott Lithgow raises questions about the continued existence of the yard. Reductions in bus services, and possible closure of engineering workshops at Falkirk and Larbert raise doubts as to whether current employment levels will be sustained. Similar policies to rationalise and reduce manning have led to disagreements between management and staff in British Rail. At a time of manpower shortages, BR plans to slim down manning and reduce the use made of Yoker as the replacement depot for the five other depots serving the north east area of the commuter district. This has led to some opposition by ASLEF, especially at Yoker, to the proposal for drivers to work on rest days.

Elsewhere the TSB faces the possibility of industrial action over proposals to shift computer jobs south of the border.

In the medium and long-term employment issues in Education and Health will once again return to dominate Scottish industrial relations. The publication of the consultation paper 'School Management and the role of Parents' raises a number of employment and manning issues. The proposals envisage a 'floor' of powers for school boards which would include a role in the appointment processes for senior members of staff (assistant headteacher and above), with the right of veto over headteacher appointments. The 'ceiling' powers envisage devolving to school boards the responsibility for choosing all members of the school staff without the involvement of local authority appointment committees. Moreover:-

Table 6 Unfilled vacancies: Scotland ('000s)

	Vacancies at Jobcentres+						Vacancies at Careers Offices
	Seasonally adjusted Excluding Community Programme			Unadjusted			
Date	Number	Change since previous month	Average change over 3 months ended	Total	Community Programme	Total excl Community Programme	Unadjusted
1986 Sep	17.5	0.0	0.3	22.4	4.0	18.3	0.3
Oct	16.6	-0.9	-0.4	21.4	3.6	17.7	0.3
Nov	16.9	0.4	-0.2	20.1	3.0	17.1	0.4
Dec	16.5	-0.5	-0.3	18.2	3.2	15.0	0.3
1987 Jan	17.1	0.6	0.2	18.5	3.9	14.6	0.3
Feb	17.2	0.1	0.1	18.6	3.4	15.2	0.3
Mar	17.5	0.3	0.3	19.8	3.1	16.7	0.3
Apr	16.7	-0.8	-0.1	20.2	3.0	17.3	0.3
May	18.1	1.4	0.3	22.7	3.5	19.3	0.5
Jun	18.3	0.2	0.3	23.1	3.3	19.7	0.4
Jul	18.6	0.4	0.6	23.1	3.2	19.8	0.4
Aug	18.9	0.3	0.3	23.4	4.1	19.3	0.5
Sep	20.4	1.4	0.7	25.0	3.9	21.1	0.5

\+ Vacancies at Jobcentres are only about one third of all vacancies in the economy

Source: Department of Employment

"Authorities would not be able to reject the choices of Boards except on the grounds that the person chosen was not properly qualified or competent to teach. Authorities would remain the employers of school staff and be obliged to redeploy or dismiss any person rejected from its staff by a Board. (The Board would be liable to meet any redundancy cost out of its delegated budget.)"
(Para. 3.5.2)

These proposals will further complicate the existing employment and manpower issues of teachers and schools being surplus to requirements due to the decline in the numbers of school children. Local authorities have begun a process of local reviews to rationalise the provision of schools in particular catchment areas. In Strathclyde the first meetings of such review groups has led to considerable parental concern over likely school closures. Although less well-publicised, the employment implications of substantial numbers of schools being merged or closed are considerable. Education authorities have had to reconsider and extend existing schemes of early retirement and retraining. In addition, policies have had to be established to deal both with the appointment of staff to promoted posts in the newly merged schools, and with the salaries and conditions of those promoted staff who do not secure promoted posts in the merged schools.

More generally, parental choice and the creation of 'magnet schools' have combined to complicate issues of manpower planning in primary and secondary education and increase the costs of that education. Authorities are faced with the need to redeploy staff to meet the changing popularity of schools and with demands to underwrite the additional capital expenditure required to expand some schools when there is spare capacity in adjacent schools and surplus capacity overall

The proposed employment powers of school boards raise a number of questions. First, the paper is unclear as to whether the existing employment legislation, namely Section 88 of the Education (Scotland) Act 1980 and the Employment Protection (Consolidated Act) 1978, will continue to prevail. If the local authority is to be excluded, legislative changes to Section 88 of the 1980 Act will be necessary. Should the Secretary of State intend to follow the recommendations of the Main Report (paras 8.62 and 8.63) School Boards may well find themselves involved in actions, via the 1978 Act, for unfair dismissal, or actions claiming sexual or racial discrimination at both recruitment and dismissal stages of employment. Secondly, irrespective of what reforms the Secretary of State undertakes, School Boards may be liable for actions for wrongful dismissal. Thirdly, paragraph 3.5.2 of the Consultation Paper implies a requirement on Authorities to attempt to redeploy staff rejected by those School Boards exercising their 'ceiling powers'. This would imply a redeployment to schools where Boards were less developed and opening the authority to criticisms that the 'rejects' were being appointed to second rate or 'non-magnet' schools and to further pressures on the system via parental choice. Fourthly, it is unclear whether delegated budgets would be sufficiently large to cover the possible costs of redundancy payments. Fifthly, steps will be necessary, including presumably some cross financing, to ensure that the current levels of inter school development and training programmes for teachers remain after budgets are devolved to schools.

As the Main Report noted in paras 8.60-8.63 the origins of Section 88 go back almost a hundred years, and argued thus:-

'In our view, the protection of Section 88 has been overtaken by that contained in employment protection legislation. We are, however, conscious that in their present sensitive state, the teachers may place the worst interpretation on such a change (the repeal of Section 88) in their conditions of service. We recommend therefore that the SED should not undertake any legislation to repeal this provision before it has undertaken a consultation exercise. We would expect that such an exercise might be used to explain

to teachers more fully exactly what protection is already available from current employment protection legislation."
(Main Report 8.63)

All the teachers' unions have argued that the proposals contained in the Consultation Paper argue for the retention of Section 88. It is in this context that teachers' representatives have argued that the veto powers on heads and hire and fire proposals on all teachers would introduce a poisonous atmosphere into schools and would be inimical to both professionalism and the standards of education, stifling initiatives to develop the curriculum and to promote educational change.

The Government has also announced similar proposals to strengthen the powers and role of college councils in the running of further education colleges. The proposals refer both to financial and employment powers, the latter including the appointment of all staff, including principals. These proposals, along with fears that the government will dismantle the SJNC (FE), the existing statutory negotiating machinery, in favour of a more devolved and flexible bargaining and wage structure with regional differences in pay and conditions, are seen by the EIS as the first steps towards commercialising and ultimately privatising further education.

Changes to conditions of employment and the potential erosion of standards of teaching have led to a potential dispute between the EIS and Strathclyde Region over changes to the provisions for under 5s. The proposals, envisage the integration of childcare, family support, parental involvement, education and learning opportunities, and express the intention that all staff would be on the same terms and conditions of service. This has led to fears of a reduction in the terms and conditions of EIS members.

Mergers and rationalisations continue to affect the university sector. Aberdeen University's proposals imply, over the next five to six years, the closure of six departments - Classics, Linguistics, Music, Russian, Social Work, and History and Philosophy of Science - and the loss of 155 academic and academic related jobs, already some 25 jobs have been lost. In addition some 90 secretarial and technical posts will be lost by natural means.

Within the Health Service, sporadic action has continued at a number of locations over the continuing staff shortages and proposals to reduce staff. At the Royal Hospital Edinburgh some 300 nursing staff have been involved in potential industrial action over staffing levels and staff shortages. An indication of the long term effects of pressures on health service employees was provided by a Health and Safety Report which felt that the physical burden on nurses was too great and was contributing to ill health.

REGIONAL LABOUR MARKETS

Unemployment in Scotland fell by 30,353 - a fall of 8.4% - during the twelve months to September to stand at 332,684 or 14.8% (this is the unadjusted total. For discussions of the various measures of unemployment see previous **Commentaries.**) The strength of the declining trend in unemployment is shown by the figures in Table 1. In every region and island

Table 1 Unemployment by region

	% rate Sept 87	Total Sept 87	Total Sept 86	Total Change	% Change
Borders	8.3	3,230	3,672	- 442	-12.0
Central	15.8	16,908	18,580	- 1,672	- 9.0
Dumfries & Galloway	12.2	7,059	7,879	- 820	-10.4
Fife	15.4	20,849	22,345	- 1,496	- 6.7
Grampian	8.8	20,318	22,191	- 1,873	- 8.4
Highland	13.2	11,682	13,042	- 1,360	-10.4
Lothian	12.3	44,871	48,549	- 3,678	- 7.6
S/clyde	17.6	180,802	197,144	-16,342	- 8.3
Tayside	13.8	23,445	25,757	- 2,312	- 9.0
Orkney Islands	11.4	773	851	- 78	- 9.2
Shetland Islands	7.1	714	763	- 49	- 6.4
Western Isles	20.4	2,033	2,264	- 231	-10.2
Scotland	**14.8**	**332,684**	**363,037**	**-30,353**	**- 8.4**

Source: Department of Employment

authority area there was a drop in unemployment during the period, varying from 6.4% in the Shetland Islands to 12% in Borders. The Borders economy appears to be especially buoyant at the moment. Throughout 1987 it has had the lowest unemployment rate of any mainland region and its rate of decline remains the strongest in Scotland. It is also notable that the strong recovery in Grampian region has returned the unemployment rate there to levels associated with the period prior to the oil price collapse. The widespread fall in unemployment is welcome, with perhaps the only concern being the possibility that those regions which were already faring better have been the greatest beneficiaries of the decline in the total (eg Borders and Dumfries and Galloway). However, this is, at present, only a minor concern. It is interesting that, although there was a rise during 1986, the level of unemployment in Highland has remained largely immune to the oil price shock, and is now falling rapidly.

Table 2 confirms the continuation of the trend observed in recent **Commentaries** of female unemployment declining much more quickly than for men. In fact, during the year to September the female total declined almost twice as quickly as the male figure. On average the number of

Table 2 Unemployment by sex and by region

	Number unemployed Sept 1987		Change since Sept 1986 (%)	
	Males	**Females**	**Males**	**Females**
Borders	2,031	1,199	- 6.0	-20.7
Central	11,474	5,434	- 6.1	-14.6
Dumfries & G/way	4,553	2,506	- 8.6	-13.5
Fife	13,892	6,957	- 3.9	-11.8
Grampian	13,209	7,109	- 7.6	- 9.9
Highland	8,140	3,542	- 9.7	-12.0
Lothian	31,313	13,558	- 4.8	-13.5
S/clyde	129,273	51,529	- 6.9	-11.7
Tayside	15,732	7,713	- 6.9	-13.4
Orkney Islands	524	249	- 8.2	-14.1
Shetland Islands	419	295	- 6.9	- 6.1
Western Isles	1,513	520	-12.7	- 1.8
Scotland	**232,072**	**100,611**	**- 6.6**	**-12.2**

Source: Department of Employment

women unemployed dropped by 12.2%, with the fall being greatest in Borders (20.7%) and lowest in the Western Isles (1.8%). Among the mainland regions it was only in Grampian that the fall was less than 10% and even there the figure was 9.9%. Overall, female unemployment has fallen by 14,014 since September 1986. Although smaller in percentage terms, the decrease in male unemployment has, nevertheless, been substantial, at 6.6% over the year to September. Moreover, almost half of this fall came in the third quarter when the male total declined by 3.1% (7,525). The biggest drop in male unemployment over the twelve months occurred in the Western Isles (12.7%), with the smallest fall occurring in Lothian (4.8%). Of the mainland regions, the largest decline was in Highland (9.7%). Specifically why female unemployment is falling most rapidly is not clear. It is known, for example, from the Scottish Chambers' Business Survey that firms claim to be increasing female employment more than male employment and that part-time employment continues to grow. It may also be the case that a disproportionate number of women are being discouraged from registering by the Restart Scheme and the new availability for work tests.

Table 3 reveals that the total number of vacancies registered at Job Centres and Careers Offices stood at 24,985 in September, a rise of 11.8% (2,628) over the year and 6.4% (1,517) higher than in June. These figures represent vacancies both for jobs and for Community Programme (CP) places, the latter accounting for 14.6% of the total. It is conventionally assumed that registered vacancies represent about one-third of all current vacancies. The unemployment-vacancy (u-v) ratio is a measure of the number of registered unemployed people competing for each registered vacancy. In September, this stood at 13.3 for Scotland as a whole (and 15.6 when CP places are excluded).

Competition for jobs was fiercest in Fife, where the u-v ratio was 18.9 (25.9 excluding CP). Moreover, the difficulty of finding "real" work in Fife is emphasised by the fact that 27.2% of vacancies were for CP places, a proportion surpassed only in the Western Isles (48.7%). In contrast, the relative prosperity of Borders region is emphasised by its exceptionally low u-v ratio of 5.0, with only 10.0% of vacancies being for the CP. The strength of the Grampian economy is also emphasised by these measures, with a u-v ratio of 7.2 and only 3.5% of places being on the CP.

Table 3 Vacancies and unemployment-vacancy ratios, by region, September 1987

	Vacancies		CP vacancies as % of	U/V ratio	
	Total	Excl. CP	total	Total	Excl. CP
Borders	648	583	10.0	5.0	5.5
Central	1,545	1,311	15.1	10.9	12.9
Dumfries & Galloway	792	667	15.9	8.9	10.6
Fife	1,106	805	27.2	18.9	25.9
Grampian	2,827	2,727	3.5	7.2	7.5
Highland	1,041	945	9.2	11.2	12.4
Lothian	4,033	3,638	9.8	11.1	12.3
S/clyde	11,087	9,081	18.1	16.3	19.9
Tayside	1,616	1,386	14.2	14.5	16.9
Orkney Is.	44	37	15.9	17.6	20.9
Shetland Is.	131	102	22.1	5.5	7.0
Western Is.	115	59	48.7	17.7	34.5
Scotland	**24,985**	**21,341**	**14.6**	**13.3**	**15.6**

Source: Department of Employment

Tables 4 and 5 are designed to illustrate the inter- and intra-regional variations in unemployment. A Travel-to-Work-Area (TTWA), is a relatively self-contained labour market in which at least 75% of the workforce resides and at least 75% of residents work. A region with a high proportion of TTWAs in which the unemployment rate exceeds the Scottish average is designated a high unemployment region, the opposite being the case for low unemployment regions. Using this approach confirms Strathclyde as a region with concentrations of unemployment above the Scottish average, 9 of its 12 TTWAs having rates of more than 14.8%. Again, Borders presents the opposite picture: not one of its TTWAs has a rate in excess of the Scottish figure.

Table 6 **What is the main reason for recruitment difficulties? (%)**

	Lack of applicants	Lack of relevant skills	Unwilling to change location	Wages too low	Other
Sectoral					
Oil and oil-related	50	17	33	0	0
Manufacturing	28	51	9	4	8
Construction	61	21	0	11	7
Distribution	25	42	4	8	21
Financial institutions	60	40	0	0	0
Regional					
Aberdeen	48	22	22	0	8
Dundee	32	47	3	9	9
Edinburgh	48	31	7	3	11
Glasgow	29	50	3	7	11
Size					
0- 50	24	51	2	10	14
51-500	45	34	9	5	6
500 +	38	43	14	0	5

problems with skilled manual employees, 50% of firms in Aberdeen with technical employees and 28% of firms in Edinburgh with professional employees. When the responses were analysed by firm size, small and medium sized firms most commonly cited skilled manual (at 28% and 31% respectively) and large firms identified technical employees (41%) as being the most difficult to obtain.

This pattern of responses was broadly similar to that for a supplementary question which asked what other types of labour had been difficult to recruit, the overall results for which are shown in Table 4.

Table 4 Which other types of employee have been difficult to recruit? (%) n=70

Unskilled manual	4
Semi-skilled manual	6
Skilled manual	30
Clerical	13
Professional	11
Technical	17
Managerial	19

To the extent that these difficulties reflect a lack of available labour in the required categories at a time of high unemployment then these sets of responses would appear to offer some support for the view, outlined above, that there is a certain degree of mismatch in the Scottish labour market. This is further borne out by the figures reported in Table 5. This summarises the responses given by firms when asked what were the main reasons for recruiitment difficulties. Over three quarters of firms gave responses that were classified as either a "lack of applicants" or "a lack of applicants with the relevant skills". In contrast, only 13% said applicants were disatisfied with either the location of the opportunity or the wages that were on offer.

Table 5 What is the main reason for recruitment difficulties? (%) n=144

Lack of applicants	37
Applicants lacked relevant skills	41
Applicants unwilling to change location	7
Applicants considered wages to be too low	6
Other reasons	10

Table 6 gives further information on the responses to this question and it is apparent that, whilst there is some variation across sectors, regions and sizes, in the main the patterns are much as in the overall table. In no case are there less than 60% of responses in the lack of applicants or lack of skills group, when taken together. Indeed this group accounted for 100% of the reponses of firms in the financial sector and, around 80% of those in the construction sector, of firms located in Edinburgh or Glasgow and of firms of over 50 employees. However, the relative importance of either of these responses varies substantially across categories. It is also noticeable that firms in the oil sector have had problems in enticing applicants to their locations and this result is manifested in an above average percentage of firms in the Aberdeen area reporting this as their major difficulty.

Whilst these results imply that the wages offered by firms are not a major source of recruitment difficulties, this may not in fact be the case. Both of the reasons which are most commonly given are not inconsistent with firms offering wages that are insufficient to elicit a satisfactory supply response. In the absence of hard information on the actual levels of wages offered by firms this possibility cannot be ruled out completely. However, there are two points which indicate that this may not be a complete explanation. First, firms themselves are in a position to evaluate the current going rate for the type of labour which they are seeking to recruit. If they are in any way serious about attracting applicants then presumably this rate will act as a benchmark for their offered wage. Secondly, if firms are offering wages below levels required to attract the necessary applicants then they should eventually come to realise this and will be forced to ammend their offer accordingly.

Table 7 provides some information on the length of time for which firms have faced recruitment problems. Overall, a substantial majority, 83%, reported that they had been experiencing these problems for more than 3 months. At the sectoral level, the only significant deviation from this figure is in the oil sector which can be explained by the more recent recovery in oil activity referred to earlier. Therefore, as these results suggest that recruitment difficulties have persisted over not insubstantial time periods, then firms should have had the opportunity to review their recruitment strategy.

Table 7 Have these difficulties emerged in the last three months or have they been evident for longer? (%)

	Last 3 months	Longer than 3 months
(a) Sectoral analysis		
Oil & oil related	43	57
Manufacturing	12	88
Construction	28	72
Distribution	14	86
Financial insts.	0	100
(b) Regional analysis		
Aberdeen	25	75
Dundee	27	73
Edinburgh	10	90
Glasgow	11	89

To the extent that these arguments are an accurate reflection of reality then these results suggest that a lack of applicants, both in general and for particular skills, is indicative of a pool of labour which lacks the qualifications required to fill what are, in the main, highly skilled positions.

Although the sample upon which the above analysis is based is too small to draw any strong conclusions, and bearing in mind the ambiguities that are inherent in information of this type, these results are at least indicative of a number of factors. First, a significant proportion of firms in most industrial sectors and regions of Scotland have been in the market for new labour, and especially skilled labour, in recent months. Secondly, half of all such firms faced difficulty in attracting the type of labour they required. This suggests that to the extent that these skills are absent, public policies taken to increase the supply of skilled labour may have been providing the unemployed with inappropriate skills. Thirdly, although these shortages are more pressing in some sectors there is evidence that all are experiencing some difficulty and have been for periods normally in excess of three months.

Whilst the authors would not claim that this evidence be used to redirect the training effort of bodies such as the MSC, it is felt that information of this type should be more widely sought and used as the basis for policy evaluation on a regular basis. Otherwise, much of the effort and resources which are being extended on training and retraining may be misdirected with the possibility that the adverse consequences outlined earlier in the paper could result.